UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF NEW YORK

ETHAN GOLD, Individually and On Behalf of All Others Similarly Situated, Plaintiff, vs. THE ROYAL BANK OF SCOTLAND GROUP PLC, SIR THOMAS FULTON WILSON MCKILLOP, SIR FREDERICK ANDERSON GOODWIN, GUY ROBERT WHITTAKER and JOHN ALISTAIR NIGEL CAMERON, Defendants.	11 CIV 1162 CIVIL ACTION NO. CLASS ACTION COMPLAINT **JURY TRIAL DEMANDED**

RECEIVED FEB 16 2011 U.S.D.C. S.D. N.Y. CASHIERS

Plaintiff. Ethan Gold ("Plaintiff"), alleges the following based upon the investigation of Plaintiff's counsel, which included, among other things, a review of defendants' public documents, conference calls and announcements, United States Securities and Exchange Commission ("SEC") filings, wire and press releases published by and regarding The Royal Bank of Scotland Group plc ("RBS" or the "Company") and securities analysts' reports and advisories about the Company. Plaintiff believes that substantial additional evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

NATURE OF THE ACTION AND OVERVIEW

1. This is a federal class action on behalf of purchasers RBS's American Depository Shares ("ADS" or "shares"), who purchased or otherwise acquired their shares between October 18, 2007 and January 19, 2009, inclusive (the "Class Period"), seeking to pursue remedies under the Securities Exchange Act of 1934 (the "Exchange Act").

2. RBS is the holding company of one of the world's largest banking and financial

services groups. RBS operates in the United States, the United Kingdom and internationally through its two principal subsidiaries, the Royal Bank and NatWest. The Company conducts operations through numerous divisions, including its Global Banking & Markets ("GBM") division, which is "a leading banking partner to major corporations and financial institutions around the world," and which provides an extensive range of debt and equity financing, risk management and investment services to RBS's customers.

3. In late 2007, a consortium of banks led by RBS acquired ABN AMRO Bank N.V. ("ABN AMRO") in a deal valued at approximately $100 billion. However, throughout the acquisition period and following the integration of ABN AMRO's businesses, RBS and its executive officers failed to disclose and made materially false and misleading statements concerning the Company's subprime exposure and its acquisition of ABN AMRO.

4. However, as the truth about the full extent of the Company's subprime exposure and its acquisition of ABN AMRO was disclosed to the market, the value of the Company's shares significantly declined. This culminated with a January 19, 2009 announcement that, due to the volume of subprime exposure the Company had taken on between 2005 and 2008 and the failure of the ABN AMRO acquisition to yield the benefits previously touted by RBS and its executives, the Company would report a loss of £28 billion ($41.3 billion) for fiscal year 2008 – the largest loss ever for a British corporation. These disclosures caused the Company's shares to decline over 69 percent in just one day.

5. The Complaint alleges that, throughout the Class Period, defendants failed to disclose material adverse facts about the Company's financial well-being, business relationships, and prospects. Further, the defendants made materially false and misleading statements and omissions concerning the Company's subprime exposure and its acquisition of ABN AMRO.

Specifically, the defendants failed to disclose that: (1) RBS and its subsidiaries had accumulated significant quantities of subprime assets; (2) RBS's exposure to subprime assets required substantial write-downs; (3) RBS's acquisition of ABN AMRO was failing to generate the benefits touted by RBS and its management; (4) RBS's recorded goodwill for ABN AMRO was substantially impaired and required write-downs; (5) RBS's internal controls were not sound and were inadequate to facilitate proper asset valuation; and (6) RBS's exposure to subprime assets would require the Company to raise significant amounts of capital to remain solvent.

6. As a result of defendants' wrongful acts and omissions, and the precipitous decline in the market value of the Company's shares, Plaintiff and other Class Members suffered damages.

JURISDICTION AND VENUE

7. The claims asserted herein arise under and pursuant Sections 10(b) and 20(a) of the Exchange Act, (15 U.S.C. §§ 78j(b) and 78t(a)), and Rule 10b-5 promulgated thereunder (17 C.F.R. § 240.10b-5).

8. This Court has jurisdiction over the subject matter of this action pursuant to Section 27 of the Exchange Act (15 U.S.C. § 78aa) and 28 U.S.C. § 1331.

9. Venue is proper in this District pursuant to pursuant to Section 27 of the Exchange Act, 15 U.S.C. § 78aa and 28 U.S.C. § 1391(b). Many of the acts and transactions alleged herein occurred in substantial part in this District, and the Company's ADS trade on the New York Stock Exchange in this District.

10. In connection with the acts, conduct and other wrongs alleged in this Complaint, defendants, directly or indirectly, used the means and instrumentalities of interstate commerce.

PARTIES

11. Plaintiff, Ethan Gold, as set forth in the accompanying certification, incorporated by reference herein, purchased RBS shares at artificially inflated prices during the Class Period and has been damaged thereby.

12. Defendant RBS is a British corporation with its principal executive offices located in Edinburgh, Scotland, United Kingdom. The Company's shares trade on the New York Stock Exchange.

13. Defendant Sir Thomas Fulton Wilson McKillop ("McKillop") was, at relevant times, the Chairman of the Company's board of directors.

14. Defendant Sir Frederick Anderson Goodwin ("Goodwin") was, at relevant times, the Company's Chief Executive Officer ("CEO") and a member of the board of directors.

15. Defendant Guy Robert Whittaker ("Whittaker") was, at relevant times, the Company's Financial Director and a member of the board of directors.

16. Defendant John Alistair Nigel Cameron ("Cameron") was, at relevant times, a member of the Company's board of directors. Cameron was also responsible for the Company's GBM division.

17. Defendants McKillop, Goodwin, Whittaker and Cameron are collectively referred to hereinafter as the "Individual Defendants." The Individual Defendants, because of their positions with the Company, possessed the power and authority to control the contents of RBS's reports to the SEC, press releases and presentations to securities analysts, money and portfolio managers and institutional investors, i.e., the market. Each defendant was provided with copies of the Company's reports and press releases alleged herein to be misleading prior to, or shortly after, their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected. Because of their positions and access to material non-public information available

to them, each of these defendants knew that the adverse facts specified herein had not been disclosed to, and were being concealed from, the public, and that the positive representations which were being made were then materially false and misleading. The Individual Defendants are liable for the false statements pleaded herein, as those statements were each "group-published" information, the result of the collective actions of the Individual Defendants.

SUBSTANTIVE ALLEGATIONS

Background

18. RBS is the holding company of one of the world's largest banking and financial services groups. RBS operates in the United Stated, the United Kingdom and internationally through its two principal subsidiaries, the Royal Bank and NatWest. The Company conducts operations through numerous divisions, including its GBM division, which is "a leading banking partner to major corporations and financial institutions around the world," and which provides an extensive range of debt and equity financing, risk management and investment services to RBS's customers.

19. Beginning in late February 2007, Dutch bank ABN AMRO started to explore strategic alternatives – either a merger, acquisition or breakup – following its 2006 financial results and concerns about its future.

Statements Made Prior to the Class Period

20. Prior to the Class Period, RBS made a series of false and misleading statements about, *inter alia*, the Company's exposure to subprime assets, the purported quality of its assets, and its "conservative risk profile" and focus on risk management. For example, on March 1, 2007, RBS filed a Form 6-K with the SEC to announce the Company's full year 2006 financial results. The Form 6-K also attributed certain statements to defendant Goodwin, including:

> Whilst building greater diversification of income across the Group, we actively manage the trade-off between sustainable growth, risk and return.
>
> Our 2006 results provide clear evidence of the success of this approach. We have delivered strong organic earnings growth and improved returns on equity, notwithstanding the adverse industry and market-wide pressures facing some of our major businesses. ***Furthermore, we have retained our inherently cautious stance towards higher risk activities such as unsecured consumer lending and sub-prime credit markets more generally.***
>
> Today's excellent results and increased dividend demonstrate the strength of RBS. We are expanding our reach and making progress in all the major economies we operate in. We face the future confidently, with momentum and a proven strategy for success. (Emphasis added)

21. The March 1, 2007 Form 6-K also contained a section entitled "Group Chief Executive's Review" which stated:

> We are building a group whose diversity, scale, distribution capacity and operational excellence can deliver superior, sustainable income growth, combined with controlled risk and strong returns. Our results in 2006 demonstrate once again the success of our model.
>
> * * *
>
> Sound control of risk is fundamental to the Group's business, and our results here are reassuring. We have grown average customer lending by 14% while impairment losses have increased by 10%. ***Central to this is our longstanding aversion to sub-prime lending, wherever we do business.*** (Emphasis added)

22. Also on March 1, 2007, RBS held an earnings conference call with investors and financial analysts. During this call, defendant Whittaker stated:

> In the US, where there's been some market turbulence and much comment over the last days and weeks, we have prime quality portfolios both at Citizens, where we do not do front prime lending, nor in our Global Banking and Markets business where ***our role as [an] intermediary between originators and investors, leaves us both well-protected and with limited risk***. (Emphasis added)

23. Additionally, during the March 1, 2007 conference call, the defendants solicited and responded to questions from financial analysts and investors, and stated:

> ANALYST: The second question is on Retail impairment. Yet again today, we've see your positively differentiated Retail credit experience and your positively

differentiated Retail credit outlook. In terms of the drivers of that, do you see the key driver as being your timing in terms of ratcheting back your unsecured appetite or the choices you made by channel, for example, closing down your direct brand, or do you just regard it as a fortunate consequence of the shape of your customer base? …

JOHNNY CAMERON: Yes. We've made a good start to the year in Corporate Markets in North America. I think there's still lots to go for. The successes have been two forms of integration. One is bringing together the GBM businesses in the shape of Greenwich and what was traditionally the New York branch. Those two coming together has -- that's really one of the things that drove the 35% that you saw in Fred's slide. The other synergy that's happening is the coming together of GBM and Citizens where, again, we've seen considerable growth. And I think there's lots more to go for there. And, more importantly, I think that the market in America, as I've said before, is open to the emergence of another large-scale corporate bank. America's a very big country. There are only three really significant corporate banks there. We have a clear ambition to be up there in the top five, and if we got anywhere near there that will be further growth. So lots still to do but lots of momentum.

TOM MCKILLOP: Gordon, on -- oh sorry, I'm looking in the wrong thing. Gordon, retail impairments.

GORDON PELL: Yes. I think you did a very excellent analysis which was based, pretty much, on what I said at the last half year. If we go back to June 2005 I said we were in for a two year slog, so I think you still owe me four months yet before I feel this is clearly behind us, but it's all looking reasonably positive. ***We were very early in. We were quite aggressively in as well. I don't think you can deal with the historic problem and pretend you can still pump in new business or even sub-prime business while you're at it. You actually have to sort of take the pain and get on with it. That shows very clearly in the results in Retail Direct this year where basically we were through from the Direct Channel market. That is really toxic waste in this sort of environment if you're not very careful.***

* * *

ANALYST: A couple of questions around some of the higher risk elements in the US, if I may. If we look at the site returns, historically, Citizens' second [inaudible] write off was about a 50th of HSBC's but in the –

LARRY FISH: I can't hear you, I'm sorry.

ANALYST: So we're talking about second [inaudible] write offs. In the US, you were running at about a 50th of HSBC up until the third quarter and then that charge-off ratio rose to about 6% of HSBC. So I'm just wondering if you can give us a feel as to whether there was something funny in the third quarter numbers or whether or not you feel your risk profile, relative to HSBC, has actually gone up?

> LARRY FISH: You know, I left Boston last night and I thought to myself, gosh I hope somebody asks me about credit. We had one large charge-off in the third quarter, a commercial credit in Rhode Island. The first commercial credit of any significance we had charged off in 14 years. ***We have never -- we don't do sub-prime. We have never done sub-prime. We have no plans to do sub-prime. Sub-prime brings with it operational risks, regulatory risks and, of course, credit risks.*** And our entire residential portfolio, which I think you understand includes both first mortgages and what are called equity lines and equity loans is a little over $50 billion about standings. And in 2006 we charged up $18 million.
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> ANALYST: Okay perhaps on Johnny's side then, can you actually in terms of the revenues say how many dollars, millions of pounds, millions was made in trading sub-prime and mortgage-backed?
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> And secondly could you give us an indication of credit lines extended to originators of sub-prime? Thank you.
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> JOHNNY CAMERON: Yes I mean that's -- that's asking for quite a lot of detail, the -- some of which I think is more commercially sensitive than I'd like to discuss with this audience. But what I will say is that we had a small decline as Fred laid it out. Asset-backed business last year which basically reflected the residential side of asset-backed. The other parts of asset-backed had a good year last year. As it happened we made a really very good start to this year as well, both in residential and asset-backed more generally. Where that market's going, it is in a bad state just at this moment but markets recover. We'll have to wait and see.
>
> But in terms of trading we made no significant trading losses of any sort. Fred's very keen, I use the phrase, we've taken those divots out. I'm concerned he'll think that's about my golf but it is also true. We've taken no divots.
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> ANALYST: And so credit lines to sub-prime lenders?
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> JOHNNY CAMERON: We have -- Greenwich has been in this business a long time and it's worth recalling that they started rather like a partnership, and like a small partnership they've always been very risk averse. ***We have got credit lines to originators like everyone in the Street in this business, but we're being highly selective.*** We've obviously had a further review during the last few weeks. ***Very comfortable with what we've done, it's highly over collateralized. Mark-to-markets are fine. We've got no concerns with our lines to the originators.*** (Emphasis added)

24. In March 2007, Barclays confirmed that it was in exclusive talks with ABN AMRO about a merger between the companies. Subsequently, on April 23, 2007, ABN AMRO and Barclays announced a proposed takeover of ABN AMRO by Barclays, in a deal valued at

€67 billion ($91 billion).

25. However, on April 25, 2007, an RBS-led consortium proposed a substantially higher offer to acquire ABN AMRO, which was valued at €72 billion ($98 billion). In a conference call held that same day, representatives from RBS, Fortis and Santander (the consortium members) discussed their ABN AMRO proposal, and during which defendant Goodwin stated:

> Don't think so and that doesn't seem to be how people are reading it at all, and you should be -- I'm sure you have read all the brokers' notes on that, but (inaudible) -- and this is -- but only looking at this situation because it is a rather unusual state of affairs that an opportunity like this comes along. ***From an RBS perspective, we don't need to do this transaction, but given that ABN finds itself in play, then I think it would be negligent of us to not to look and having looked, we see opportunity to generate value for our shareholders and to generate an offer which offers superior for ABN's shareholders. So that is why we are progressing here.*** (Emphasis added)

26. Additionally, during the April 25, 2007 conference call, representatives from the consortium solicited and responded to questions from financial analysts and investors regarding the proposed transaction, and stated:

> ANALYST: Your document says that you'd proceed if ABN AMRO provides limited due diligence information. How limited or how much information would you require?
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> FRED GOODWIN: I think we are talking here about a public company, a company that is regulated in many different countries, a company which has already had due diligence done on it for the results in Barclays making an offer, so ***I don't think we need to conduct a major due diligence exercise. I think there will be some due diligence light would be what we would be wanting to do.***
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> * * *
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> UNIDENTIFIED AUDIENCE MEMBER: I think there was some discussion, Sir Fred, if you fail to gain control of LaSalle, have you got other targets in the states that you've got your sights on?
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> FRED GOODWIN: As we have said all along, I mean ***we don't need to do this. We weren't in the market for acquisitions. This is a rather unusual situation where a business of this size and this diversity of business comes on the market.***

> It doesn't happen every day when something like this comes on the market and that is why we are looking at it. It would be nice to own LaSalle. It would be nice to own some of the other bits because I know it would be nice for Jean-Paul and Emilio to own their part. ***If it doesn't happen, it doesn't happen.*** (Emphasis added)

27. On May 29, 2007, the RBS-led consortium held another conference call to discuss their proposed offer for ABN AMRO, and to discuss how their offer was a "superior value for ABN AMRO shareholders." In discussing ABN AMRO and the consortium's offer, defendant Goodwin stated:

> The numbers work, too. The ABN AMRO problem I guess is there for all to see in the column, showing its P&L account. You do not have to make a huge amount of headway into that to get down to towards our number to realize that the significant values we realized, and you can see that down at the bottom of the slide and the proportion of synergies which in transaction benefits which come from this strand of the project.
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> * * *
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> ***Transaction financials, very attractive.*** We don't look at a lot of transactions in the group that come forward as attractive as this and as large as this. ***We have been -- tried to be pretty conservative in pulling our numbers together. We're not shooting the lights out to arrive at these numbers.*** I think they make good business sense and fully warrant the effort which will be required. This will be a difficult transaction to land and there will be a lot of hard work required to deliver all of these integration synergies, but we believe that these returns are fully warranted from a perspective of our shareholders.
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> * * *
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> But for today ***we stick with the bid we made a month ago. We feel better about it than we did a month ago. We've had a chance to do more work to gain more insight into ABN AMRO and the numbers work***. But then we thought the numbers worked before we [sat down] and accepted, but you're maybe just getting it -- maybe you are just getting a chance to see these today but what made all this pain and effort worthwhile for us was that we could see these numbers at the outset. (Emphasis added)

28. Additionally, during the May 29, 2007 conference call, representatives from the consortium solicited and responded to questions from financial analysts and investors regarding the proposed transaction, and stated:

ANALYST: At the group level, sort of consortium versus Barclays, the big difference in synergies appears to be in Johnny's area. We have got both more revenue and more costs. I was just wondering if you could explore in some more detail as to where you think you have the incremental benefits compared to where Barclays would be.

FRED GOODWIN: I can't think of anyone better than Johnny to do that one, Mark.

JOHNNY CAMERON: I think it is worth comparing it to our experience with NatWest. ***Certainly we've only had very limited due diligence***, but that interview when I went over there, filled me with enormous confidence particularly about the cost synergies. I think it is about complexity as much as anything else, as Fred said. They have a very, very complex organization with cost allocations all over the place. And that is something in particular we would want to address.

* * *

ANALYST: Two questions, if I may. Firstly, could you comment on the thinking behind increasing the cash portion of the consideration from the original indication? Secondly, could you update us if possible on any timing or progress in filings with the Dutch Central Bank?

FRED GOODWIN: … So we indicated at the time of an initial bid that from a consortium perspective, it would be at least 70% cash as we've spent more time and ***we have had access to limited due diligence*** and as we have worked to refine our plans more, we could easily reach levels we have reached and you see -- you saw the figures on the capital ratio. So it just makes more sense to pay than equity. That is standard, that's a pretty standard assumption I guess.

* * *

ANALYST: You have given us a good exposition of the 13% return on investment. It is a fair reflection of the risks involved in the transaction, but interestingly, Barclays are looking for a 13% return as well. It seems to me with that sort of level of return it seems unlikely eventually in what could be a sort of contested situation. So if for example the available return to you fell to -- or you had to do the transaction from an 11% return, do you think at that level the risks would be too great to outweigh going through with the transaction at that sort of return?

FRED GOODWIN: We're into some hypotheticals I guess (inaudible) here, but we've got a bid on the table that's materially near to Barclays bid at a number of levels but in particular financially and it is generating that return for us so for us to get into a situation where Barclays are competing with us and we'd be under pressure to increase our bid, I would be interested to know what their shareholders would think about the price impact of it.

> The important point -- ***I haven't said the words yet but it is self-evident, we don't have to do this. The reasons we are bringing this forward is we've seen from the outset are very doable, challenging but doable transaction that offers very attractive returns for RBS shareholders.*** We are wearing a consortium hat today but not for long. We've look at this -- our own shareholders we're here for as are my colleagues and it is attractive for all of us. That's why we're here. If it ever gets to a place where we think we need to change the price to one which starts to challenge reason, I don't want to do it. My colleagues don't want to do it. The Board don't want to do it and that is very simple.
>
> You would not expect me to sit here today and tell you what the number was or -- it can never just be a bald number. There have to be circumstances attaching to it but ***we don't have to do this deal and we will not do this deal -- and I do speak for the consortium here -- if it gets to a place where it doesn't make sense. It's clearly makes sense at this level and that is why we're happy to go forward*** and try and secure the transaction. If there is someone else out there who can come up with a higher transaction value, maybe they will unearth something that we don't know, and we would have to reflect on that. And none of us have to do this. (Emphasis added)

29. On June 5, 2007, RBS held an "interim pre-close trading update" conference call with investors and financial analysts. During this call, the defendants solicited and responded to questions from financial analysts and investors, and stated:

> ANALYST: I just wanted to explore a bit more the improvement in the unsecured and I note your comments saying it's quality as well as quantum. Could you just perhaps elaborate a bit as to whether that's driven by the cautious approach to lending, meaning perhaps that the book has shrunk, so it's actioned by RBS? Do you see it as a market improvement? Is there any, perhaps, distortion around IAS volatilities as the rate of deterioration has slowed? So just really could get a little bit more color and light on the improvement in the unsecured.
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> FRED GOODWIN: I'll pass to Guy on the IAS aspect of it, Mark, but it's a combination of all the things you mentioned. The book has shrunk a little as it did in the second half of last year. The market is coming down as well. ***The mix or the quality of the credit within our book, as you've heard me saying ad nauseam, we don't do sub-prime so we've not, perhaps, been exposed to some of the more boisterous elements of that market that others have.*** So provisioning as a proportion of our book is coming down as well as the book coming down so, to my mind, that gets you to the remarks about quality and quantity.
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> * * *
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> ANALYST: And then on the US Citizens, I wanted to understand your exposure to the Alt-A mortgages, and while you're not exposed to the sub-prime sector,

> could we see contagion to the near-prime or to the prime, considering the fact that the housing market is slowing and that interest rates are not coming down and that activity is slowing down altogether? …
>
> FRED GOODWIN: … ***Alt-A, we're not anticipating -- we don't have a huge exposure to Alt-A. It's a very modest level of exposure, but at all very high FICO scores.*** And I think that one of the things when somebody comes to write the book about all of this in the United States is that the contagion from sub-prime is into other areas of sub-prime. I think what's happened over recent years, and perhaps it has passed people by, is just quite the depth of the sub-prime sector is a lot greater than people thought and there is a -- where there is contagion, it's up the food chain, but still within the sub-prime area rather than making it across into any of the others, so ***we're not seeing any stress in our book against the -- what little exposure there is to Alt-A.***
>
> ANALYST: Okay and if you were to -- can you give us an idea of your overall exposure to the Alt-A sector?
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> SIR FRED GOODWIN: ***A few hundred million.***
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> ANALYST: A few hundred million, okay. Thank you very much.
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> SIR FRED GOODWIN: And all in very good FICOs.
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> ANALYST: Okay, thank you very much.
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> SIR FRED GOODWIN: Sorry, that was a few hundred million dollars by the way. (Emphasis added.)

30. On July 16, 2007, RBS filed a Form 6-K with the SEC discussing its plans for the acquisition of ABN AMRO. In a section entitled "RBS's Acquisition of ABN AMRO Businesses" the Form 6-K stated:

> RBS's announcement of 29 May 2007 set out the rationale for its participation in the proposed offer to acquire ABN AMRO. That announcement remains unchanged except in relation to LaSalle.
>
> RBS intends to continue with the acquisition of the Global Wholesale Businesses and International Retail Businesses of ABN AMRO ("the ABN AMRO Businesses"). Instead of acquiring LaSalle, RBS will acquire cash from the sale of LaSalle and, in the absence of LaSalle, the synergies anticipated in North America have been revised.
>
> The consideration for the ABN AMRO Businesses net of the sale of LaSalle will be €16 billion, of which €5 billion will be financed by equity.

> RBS believes that this transaction will provide enhanced growth prospects and attractive financial returns. As a result of the transaction, RBS expects to deliver cost savings amounting to €1,237 million (or €1,319 million, including its share of central cost savings) and net revenue benefits amounting to €481 million, by the end of 2010.
>
> On RBS's forecasts for business growth and transaction benefits, the internal rate of return on the acquisition of the ABN AMRO Businesses will be 15.5% post-tax, well above the Group's hurdle rate of 12% post-tax. The acquisition is expected to deliver a post-tax return on investment(1) of 13.2% in 2010, and to increase Group adjusted earnings per share(2) by 2.0% in 2009 and by 7.0% in 2010.

31. The July 16, 2007 Form 6-K also quoted defendant Goodwin discussing the ABN AMRO transaction as follows:

> The acquisition of the ABN AMRO Businesses remains compelling from a financial point of view, as evidenced by the fact that it produces essentially the same earnings enhancement for the Group, despite the smaller size of the transaction. From a strategic perspective, whilst we would have preferred to acquire LaSalle as well, the businesses we are acquiring open up many new markets and growth opportunities, enabling us to significantly accelerate our strategic development.

32. On July 20, 2007, RBS filed a Form 6-K with the SEC detailing its profit estimates and interim results for the first six months of 2007, and announced that the RBS-led consortium was publishing its offer documentation and formally launching its offer for ABN AMRO. The Form 6-K stated:

> The Royal Bank of Scotland Group plc ("RBS"), Fortis and Santander (collectively "the Banks") are today publishing offer documentation and formally launching their offer for ABN AMRO.
>
> These documents include a prospectus for the proposed issue of new RBS ordinary shares (the "Prospectus") and a circular to shareholders giving notice of an Extraordinary General Meeting (the "Circular"). Due to regulatory requirements, the Prospectus and Circular contain a profit estimate for the financial results of RBS for the first six months of 2007, as set out below.
>
> Profit Estimate for First Six Months of 2007
>
> ***RBS's interim results for the six months to 30 June 2007 are expected to reflect good organic growth in income, disciplined expense control, measured***

> ***investment in faster growing businesses and continued strong credit metrics. Profit before tax, intangibles amortisation and integration costs for the six months to 30 June 2007 is expected to be not less than £5,000 million.*** Adjusted earnings per share before intangibles amortisation and integration costs is expected to exceed 37 pence per RBS Ordinary Share based on an effective tax rate of 26%. The effective tax rate reflects an underlying rate of 29% adjusted to record the full effect (£160 million) on deferred tax of the change in the UK corporation tax rate in the first half of 2007.
>
> The profit estimate has been made in respect of profit before tax, intangibles amortisation and integration costs rather than in respect of profit before tax, as RBS considers this measure provides more meaningful information to shareholders and allows for greater comparability with prior years. The profit estimate is based on the management accounts for the five months to 31 May 2007 and the preliminary results for the month of June 2007.
>
> This profit estimate is consistent with the guidance RBS provided in its trading statement of 5 June 2007. (Emphasis added.)

33. Also on July 20, 2007, RBS filed a Form F-4 Registration Statement with the SEC. Therein, the Company stated:

> RBS believes that the acquisition of the ABN AMRO Businesses will enhance the RBS Group's prospects for growth, both by enabling it to accelerate existing strategies for growth and by providing attractive new opportunities.
>
> * * *
>
> *Cost Savings and Revenue Benefits*
>
> RBS believes that the combination of its and the ABN AMRO Businesses creates the opportunity for significant cost savings and revenue benefits. RBS believes that it will deliver cost savings amounting to €1,237 million (or €1,319 million, including its share of central cost savings), or 23% of the 2006 costs associated with the relevant ABN AMRO Businesses and net revenue benefits amounting to €481 million, or 8% of the 2006 income associated with the relevant ABN AMRO Businesses, in the third year after completion of the offers. RBS expects the total integration costs to be €2.57 billion (€2.73 billion including RBS's share of central integration costs).
>
> The following table sets out the pre-tax benefits that RBS expects to gain within three years of completion of the offers as a result of the integration of the relevant ABN AMRO Businesses. For further information about the plans and proposals of RBS for achieving these benefits, see "Plans and Proposals for ABN AMRO—RBS".

	Estimated Cost Savings per Annum by end of 2010 (euro millions)	**Estimated Net Revenue Benefits per Annum by end of 2010 (euro millions)**
Global Wholesale Businesses	1,237	481
International Retail Businesses	---	---
Shared Assets	82	---
Total	1,319	481

> *Expected Financial Impact*
>
> Based on RBS's forecasts for business growth and transaction benefits, the acquisition of the ABN AMRO Businesses is expected to lead to 7.0% accretion in adjusted earnings per RBS ordinary share and to produce a return on investment of 13.2% in the third year after completion of the offers. The internal rate of return of the Transaction is expected to be 15.5% post tax.
>
> Allowing for the acquisition of the relevant ABN AMRO Businesses, RBS's Tier 1 capital ratio is expected to be approximately 7.4% at the end of 2007. (Emphasis added; internal references omitted)

34. On August 3, 2007, RBS filed a Form 6-K with the SEC detailing its financial results for the first half of 2007 (ended June 30, 2007). One of the "First Half Highlights" that the Company highlighted was that its impairment losses had ***improved*** to 0.40% of loans and advances. The Form 6-K also attributed certain statements to defendant Goodwin in a section entitled "Group Chief Executive's Review" which stated:

> Our Group has consistently demonstrated its ability to deliver organic growth in income, profit and earnings per share and we have done so once again in the first half of 2007, with a strong performance from our range of diversified businesses. Total income rose to £14,690 million, up 8%, operating profit increased by 11% to £5,106 million and adjusted earnings per share by 21% to 38.4p.

* * *

Strong credit metrics highlight our conservative risk profile across the Group, and impairment losses fell 2% to £871 million. The quality of our corporate loan portfolio remains very strong, and we believe that we have passed the peak of bad debts in the UK unsecured personal credit market. Our early action to tighten lending criteria and reduce activity in the direct loan market is now reflected in falling arrears and a 7% reduction in Retail impairment losses. Our trading book risk remains modest.

* * *

Adjusted earnings per share increased by 21% to 38.4p, driven by our strong operating performance, a reduction in the number of shares in issue following last year's share buyback, and an effective tax rate of 25.4% in the first half of 2007. This tax rate includes the full impact on deferred tax of the change in the UK corporation tax rate from April 2008. Excluding this deferred tax reduction, adjusted earnings per share rose by 16%.

Adjusted return on equity improved to 19.6%, or to 18.7% excluding the deferred tax reduction.

Our businesses

These very good results endorse the strength of our business model and emphasise the importance of diversity in our sources of income. They also reflect the measured investments we have made over recent years to take advantage of growth opportunities across our businesses. In each of our divisions we have achieved good growth in core customer numbers, underpinning these results and strengthening our franchise for the future.

Our businesses have continued to balance volume growth against profitability, and ***we have maintained a more cautious approach towards a number of business segments in which we have not considered that the available returns matched the costs and risks entailed***. We have, therefore, further reduced our business volumes in markets such as direct loans, intermediary mortgages and insurance partnerships, with a consequent improvement in profitability.

Global Banking & Markets has produced another strong performance, as its expanding product set and broadening geographical footprint have yielded a 19% increase in operating profit, while UK Corporate Banking has maintained its consistently good pace of growth. Ulster Bank and Wealth Management, too, have kept up their momentum, and we are continuing to invest in these high-growth businesses.

Retail Markets has continued to build its core current account franchise, providing the platform for strong growth in its savings and investments business. Lending growth has been more subdued but our cautious credit stance has produced a reduction in impairment losses, and this, together with flat underlying costs, drove a 10% increase in operating profit.

> Citizens has increased its customer numbers by 5% and made significant progress in its efforts to diversify its income streams away from its traditional deposit products, with good growth in credit cards and merchant acquiring. ***That diversification has emphatically not included the sub-prime credit markets, and we have no regrets over our decision to avoid this segment.*** Average corporate lending increased by 12%, demonstrating the momentum we are building towards our objective of developing a significant corporate and commercial banking presence in the US. Operating profit rose by 2% in US dollar terms. (Emphasis added)

35. The notes to the financial statements contained in the August 3, 2007 Form 6-K included a discussion on "loan impairment provisions" which stated "[o]perating profit is stated after charging loan impairment losses of £851 million (2006—£889 million). The balance sheet loan impairment provisions increased in the half year ended 30 June 2007 from £3,935 million to £4,062 million…."

36. In discussing the Company's Global Banking & Markets segment, the August 3, 2007 Form 6-K stated that "***[p]ortfolio risk remained stable*** and the corporate credit environment remained benign. Impairment losses of £21 million were in line with the first half of 2006, a period which included significant recoveries."

37. Additionally, and with respect to Citizens, the Company's August 3, 2007 Form 6-K stated:

> The franchise, particularly corporate and commercial banking, made good progress in the first half of 2007 as the headwinds showed signs of abating. Stable margins and growth in fees lifted income by 2% to $3,084 million which, coupled with tight cost control and strong credit quality, resulted in operating profit growth of 2% to $1,482 million. In sterling terms, total income decreased by 7% to £1,565 million and operating profit also fell by 7% to £752 million.
>
> Net interest income was $1,931 million. Average loans and advances to customers increased by 4%, with strong growth in corporate and commercial lending offsetting weaker demand for mortgage and auto loans. Average corporate and commercial loans excluding finance leases increased by 12%, reflecting Citizens' success in adding new mid-corporate customers and increasing its total number of business customers by 3% to 473,000, with particularly good growth in the Midwest.

* * *

> The increasing proportion of commercial lending in our portfolio has contributed to an increase in impairment losses to $163 million. This reflects the growth in the portfolio over the recent past and still represents just 0.29% of loans and advances to customers, on an annualised basis, illustrating the quality of our portfolio. Risk elements in lending and problem loans represent 0.35% of loans and advances, up slightly from 0.32% in 2006. ***Citizens is not active in sub-prime lending, and consumer lending is to prime customers, with average FICO scores on our portfolios, including home equity lines of credit, in excess of 700 with 96% of lending secured.*** (Emphasis added)

38. Also on August 3, 2007, RBS held an earnings conference call with investors and financial analysts. During the conference call, defendants Whittaker and Goodwin stated:

> GUY WHITTAKER: The credit environment was positive. Our credit metrics reflected that and duly improved, loans and advances grew by 10% to GBP424 billion, but our impairment losses fell by 2% to GBP871 million. ***Our risk elements in lending and potential problem loans declined as a proportion of the portfolio from 1.64% this time a year ago to 1.51% as at June 30. It remains a very high quality portfolio, well diversified by industry and by geography.*** It was pleasing to see that our UK unsecured credit losses declined in the first half of the year and arrears are falling. The corporate environment remains benign and ***our US portfolios, a subject of much discussion at the moment, are of a prime or super prime nature***.
>
> So all-in-all it was a very strong first half. Strong income growth, notwithstanding the adverse currency move, good expense control, improving credit environment, adverse claims experience, which we'll come on to talk about when we go through the divisions, all added together to give double-digit profit growth up 11% to GBP5.106 billion.

* * *

> Our commercial lending volumes grew by 12% with good growth in the ancillary fees and products that are sold with them. ***Credit metrics overall remains strong.*** The rise in impairments is very much in line with our expectations and reflects really the growth in the commercial book as that size of the business expands. Our risk elements in lending are very low at 35 basis points. ***We have just as a reminder no sub-prime exposure in the lending book at Citizens.*** Our FICO scores are over 700 and 96% of our lending to consumers is fully secured.

* * *

> The balance sheet remains in good shape. Risk rated assets grew 9 percentage points. Our capital ratios were stable in the middle of our 7% to 8% Tier I range.

> Our returns on equity went up 1% to 19.6% and our interim dividends, as the chairman just said, rose 25% to 10.1p. I think, in the round, a very good set of financial numbers.
>
> * * *
>
> FRED GOODWIN: Looking geographically for a moment, I think there's some interesting dimensions here too. United Kingdom is ahead by 10%, the United States back by one at Group level, to give you a sense of where that was -- what was driving that. As Guy said earlier, the Corporate Markets business has gone backwards, 6% in dollars, 15% in sterling, and still we delivered those results in Corporate Markets. And the asset-backed business we stepped back from that activity and there was less of that activity to step back from, was down 23% in local currency, and still we delivered the numbers. You'll see the ever growing other Corporate Markets activity in the United States moved ahead strongly. So a lot happening in the United States. Again, demonstrating that there's more to our business there than simply asset-backed securities and there's a lot more to our business there than just Citizens. (Emphasis added)

39. Additionally, during the August 3, 2007 conference call, the defendants solicited and responded to questions from financial analysts and investors, and stated:

> ANALYST: And also perhaps comments on exposure in the CDO market and equity bridges, all that sort of stuff?
>
> JOHNNY CAMERON: … In terms of answering the portfolio questions, ***our portfolio as I said at the full year results that our portfolios were modest. They've got more modest, and much more modest since then.*** But giving you actual numbers I think is misleading. It's better to look at the overall context to look at the results, which I just quoted you for the July. We have hedges in all sorts of places against the various portfolios so to pick one portfolio and say it's X billion then I have to give you the hedge and then give you the hedge on the hedge and I think we end up in a difficult place. ***We've cut back a lot since the year end of '06 in our exposure to these sorts of markets and I told you then that they were very modest. We've taken no credit losses anywhere in the portfolio.***
>
> * * *
>
> ANALYST: Maybe try to follow-up on the earlier question about mark-to-market. On the -- just the corporate markets, that asset-backed number down 23% to 614. Could you give a bit more color on that in terms of is it mainly mark-to-market losses or what was driving that decline?
>
> JOHNNY CAMERON: It was a bit of both. There are some -- some of the securities have been mark-to-market but the main thing really is loss of volume.

> We've been originating a lot less during the first six months of this year in the residential area. Worth noting that the commercial mortgage-backed has carried on and it's been pretty good actually in the first six months. (Emphasis added)

40. On August 15, 2007, RBS filed a Form 6-K with the SEC which stated that "[i]mpairment losses fell 2% to £871 million, compared with £887 million in 2006," and that "[r]isk elements in lending and potential problem loans represented 1.51% of gross loans and advances to customers excluding reverse repos at 30 June 2007 (31 December 2006 - 1.57%)." Additionally, and with respect to loan impairment provisions, the notes to the Company's financial statements stated that "[o]perating profit is stated after charging loan impairment losses of £851 million (2006 - £889 million). The balance sheet loan impairment provisions increased in the half year ended 30 June 2007 from £3,935 million to £4,062 million…."

41. In discussing the Company's Global Banking & Markets segment, the August 15, 2007 Form 6-K stated that "[p]ortfolio risk remained stable and the corporate credit environment remained benign. Impairment losses of £21 million were in line with the first half of 2006, a period which included significant recoveries."

42. Additionally, and with respect to Citizens, the Company's August 15, 2007 Form 6-K stated:

> The franchise, particularly corporate and commercial banking, made good progress in the first half of 2007 as the headwinds showed signs of abating. In sterling terms, total income decreased by 7% to £1,565 million and operating profit also fell by 7% to £752 million mainly as a result of adverse movements in exchange rates. In dollar terms, stable margins and growth in fees lifted income by 2% to $3,084 million which, coupled with tight cost control and strong credit quality, resulted in operating profit before tax growth of 2% to $1,482 million.
>
> Net interest income was £980 million ($1,931 million). Average loans and advances to customers increased by 4%, with strong growth in corporate and commercial lending offsetting weaker demand for mortgage and auto loans. Average corporate and commercial loans excluding finance leases increased by 12%, reflecting Citizens' success in adding new mid-corporate customers and increasing its total number of business customers by 3% to 473,000, with particularly good growth in the Midwest.

* * *

The increasing proportion of commercial lending in our portfolio has contributed to an increase in impairment losses to £83 million ($163 million). This reflects the growth in the portfolio over the recent past and still represents just 0.29% of loans and advances to customers, on an annualised basis, illustrating the quality of our portfolio. Risk elements in lending and problem loans represent 0.35% of loans and advances, up slightly from 0.32% in 2006. ***Citizens is not active in sub-prime lending, and consumer lending is to prime customers, with average FICO scores on our portfolios, including home equity lines of credit, in excess of 700 with 96% of lending secured.*** (Emphasis added)

43. On September 28, 2007, the Company filed a Form 6-K with the SEC which stated:

FINANCIAL REVIEW

Operating profit before tax

Operating profit before tax increased by 16% from £4,075 million to £4,721 million reflecting strong organic growth in Corporate Markets, Wealth Management and Ulster Bank.

Total income

The Group achieved strong growth in income during the first half of 2007. Total income was £11,421 million compared with £10,457 million, an increase of £964 million, 9%.

Net interest income increased by 3% to £5,250 million and represents 46% of total income (2006 – 49%).

Non-interest income increased by 15% to £6,171 million and represents 54% of total income (2006 – 51%).

Operating expenses increased by £327 million, 6% to £5,829 million.

Impairment losses fell 1% to £871 million, compared with £880 million in 2006.

44. With respect to the ABN AMRO acquisition, on October 8, 2007, *Bloomberg* published an article entitled "Royal Bank Pays 'Big Price,' Takes Control at ABN." The article stated:

Royal Bank of Scotland Group Plc, winner in the six-month takeover battle for ABN Amro Holding NV, now faces the challenge of convincing its shareholders the 71.9 billion-euro ($101 billion) buyout adds value.

"The pressure is on these guys," said Colin Morton, a Leeds, England-based fund manager at Rensburg Sheppards, who helps manage about $1.8 billion including Royal Bank stock. "They've got it, they wanted it, they paid a big price for it. The market will be looking over the next 12 to 18 months for them to deliver on the deal."

* * *

Led by Royal Bank Chief Executive Officer Fred Goodwin, the group trumped London-based Barclays Plc, which abandoned a competing bid valued at 63.2 billion euros on Oct. 5. The three banks have promised to cut 19,000 jobs and achieve 4.3 billion euros in cost savings and revenue gains by 2010 to make the acquisition pay off.

Losing LaSalle

Goodwin, 49, began to lay the groundwork to buy ABN Amro in 2005 and was initially most interested in ABN Amro's Chicago-based LaSalle unit. To fend off Royal Bank, ABN Amro CEO Rijkman Groenink agreed to sell the LaSalle unit to Bank of America for $21 billion. Goodwin lost the battle in July for LaSalle after the Dutch high court allowed the deal to proceed.

Rather than cede ABN Amro to Barclays, Goodwin's team revised their bid in July to exclude LaSalle and raised the cash component to 93 percent. That made it more valuable to ABN Amro's shareholders than Barclays's mostly stock bid, especially as the U.S. subprime-mortgage crisis triggered a credit crunch the pulled down banking shares.

"The short-term winners are ABN shareholders, who have done very well," said Morton of Rensburg Sheppards.

With the greater cash component, Goodwin and his partners have to raise a combined $40 billion in takeover financing amid higher borrowing costs. Royal Bank sold about $7 billion of bonds Sept. 26 to help fund the takeover.

'Tricky Deal'

"It was a tricky deal to start with, and then they didn't get LaSalle and then came the liquidity crisis," said Mike Trippitt, an analyst at Oriel Securities Ltd. who has a "buy" rating on Royal Bank stock. "***Nobody would have been surprised if they had walked away."***

The group is paying about ***three times ABN Amro's book value***, higher than the multiple of 2.35 that JPMorgan Chase & Co. paid in its $58 billion acquisition of

> Bank One Corp. in 2004. ***The acquisition of ABN Amro would be the largest financial-services takeover, exceeding the $69.9 billion combination of Citicorp Inc. and Travelers Group Inc. in 1998.***
>
> "The Royal Bank-led offer is ***a very expensive transaction***," said Robert Talbut, chief investment officer at Royal London Asset Management, who helps manage about 31 billion pounds ($63 billion). "The risk-reward doesn't add up." (Emphasis added)

45. On October 9, 2007, the RBS-led consortium formally declared "victory" in bidding for control of ABN AMRO, after shareholders representing 86 percent of ABN AMRO's shares accepted the consortium's offer. This level of acceptance cleared the way for the consortium to take formal control, and on October 10, 2007, RBS, Fortis and Santander declared their joint offer for ABN AMRO was unconditional.

46. The Class Period begins on October 18, 2007. On this day, the Company's ADS commenced trading on the New York Stock Exchange. As *Bloomberg* reported on October 18, 2007:

> Royal Bank of Scotland Group Plc, the U.K.'s second-biggest bank, began trading its American Depositary Shares today on the New York Stock Exchange following its agreement to buy Dutch bank ABN Amro Holding NV.
>
> Royal Bank was listed on Euronext Amsterdam's Eurolist on Oct. 15 after the Edinburgh-based bank and partners Banco Santander SA and Fortis declared their bid unconditional in the biggest financial-services takeover.

Materially False and Misleading Statements Issued During the Class Period

47. On December 6, 2007, RBS issued a "Pre-close Trading Update," which was filed in a Form 6-K with the SEC on the same day, and which provided the following highlights:

> - RBS (excluding ABN AMRO) operating profit and earnings per share in 2007 expected to be well ahead of market consensus
>
> - Group capital ratios at end 2007 expected to be comfortably within our target ranges of 7% to 8% for Tier 1 capital and 11% to 12% for total capital

- ***Credit market deterioration in the second half is expected to result in write-downs of £950 million***

- Gains on planned operating disposals have benefited from strong investor demand

- Excluding the net positive impact of these write-downs and gains, results are still expected to be comfortably ahead of consensus

- ***ABN AMRO Group adjusted earnings consistent with previous guidance***

- ***Integration of ABN AMRO progressing well. Transaction benefits, return on investment and earnings accretion slightly higher than forecast***

(Emphasis added; internal references omitted)

48. Within the December 6, 2007 Form 6-K, RBS and defendant Goodwin continued to tout the benefits of the ABN AMRO transaction:

> Sir Fred Goodwin, Group Chief Executive, said:
>
> "Rarely have the diversity and quality of the Group's business platform been more important in enabling us to deliver consistently strong performance. Although some of our businesses have been affected by the challenging market conditions, the Group's underlying earnings trajectory has remained comparatively unaffected.
>
> ***The integration of ABN AMRO is off to a promising start, and we now anticipate better financial returns than we envisaged at the time of the bid.*** More importantly, the increased exposure to many high growth economies that ABN AMRO brings us seems more attractive and relevant than ever."
>
> * The market consensus forecast, excluding ABN AMRO, is for 2007 profit before tax, purchased intangibles amortisation and integration costs of £9,775 million, and for adjusted earnings per share of 70.5
>
> * * *
>
> **RBS excluding ABN AMRO**
>
> RBS has continued to perform well in 2007, with operating profit and earnings per share expected to be well ahead of the market consensus forecast. ***Results have been restrained by credit market deterioration in the second half, which is expected to result in write-downs in income of approximately £950 million. These include write-downs of approximately £950 million on our exposures to US sub-prime mortgage markets*** (see Appendix) and £250 million on our

leveraged finance portfolio, partially offset by a reduction of approximately £250 million in the carrying value of our own debt carried at fair value.

* * *

Overall credit metrics remain strong, with improvements in both UK personal and corporate impairments. At Citizens, impairment provisioning has stepped up to a more normal level, reflecting the impact of the weakening US real estate market in the second half on some elements of its portfolio. Group impairment losses are expected to be flat as compared with 2006, and to fall as a percentage of average loans and advances.

* * *

ABN AMRO's adjusted earnings for 2007 are expected to be consistent with the guidance it issued on 17 September 2007. These results include write-downs on US sub-prime mortgage exposures (see Appendix) which have now been valued using the same approach as RBS.

The integration of ABN AMRO is progressing well. Since completion of the acquisition, RBS has validated its plan and now expects to deliver transaction benefits somewhat greater than anticipated in the offer for ABN AMRO announced on 16 July 2007.

Based on RBS's revised forecasts for business growth and transaction benefits, the acquisition of the ABN AMRO Businesses is now expected to lead to slightly higher earnings accretion and return on investment than previously indicated.

Capital ratios remain in line with previous guidance, and ABN AMRO's funding and liquidity position remains strong. Investor demand for commercial paper issued by ABN AMRO's long-established conduits, less than 0.5% of whose assets relate to US sub-prime residential mortgages, remains strong. (Emphasis added; internal references omitted)

49. Additionally, the December 6, 2007 Form 6-K contained a discussion about the Company's exposure to subprime assets:

The Royal Bank of Scotland Group's Global Banking & Markets business (GBM) has a leading position in structuring, distributing and trading asset-backed securities (ABS). These activities include buying mortgage-backed securities, including securities backed by US sub-prime mortgages, and repackaging them into collateralised debt obligations (CDOs) for subsequent sale to investors. It retains exposure to some of the super senior tranches of these CDOs. There is no exposure to these instruments in the banking book.

At 30 November, GBM's exposure to these super senior tranches, net of hedges and write-downs, totalled £1.1 billion to high grade CDOs which include

commercial loan collateral as well as prime and sub-prime mortgage collateral, and £1.3 billion to mezzanine CDOs based predominantly on residential mortgage collateral. ***The CDOs are largely based on ABS issued between 2004 and the first half of 2006. GBM also had under £1 billion of exposure to sub-prime mortgages through a trading inventory of mortgage-backed securities and CDOs, and £0.1 billion through securitisation residuals. GBM has no exposure to Structured Investment Vehicles (SIVs) or to SIV-Lites.*** (Emphasis added)

50. The December 6, 2007 Form 6-K also contained a discussion about the Company's valuation of its asset-backed securities (ABS) collateralized debt obligations (CDOs):

In the second half of 2007, rising mortgage delinquencies and expectations of declining house prices in the US have led to a deterioration of the estimated fair value of these exposures. ***Our valuations of the ABS CDO super senior exposures take into consideration outputs from our proprietary model, market data and prudent valuation adjustments. Our trading book exposures and residuals are marked to market on the basis of direct prices, where available, or observable market benchmarks***, as detailed in the table below.

	Exposure net of hedges and write- downs at 30 November *£m*	*Average price post write-down* *%*
Super senior tranches of ABS CDOs		
High grade CDOs	1,100	90
Mezzanine CDOs	1,256	70
CDO squared	0	n/a
Sub-prime trading inventory		
Investment grade	717	89
Non-investment grade	218	46
Residuals	86	47

The resulting write-downs in income are expected to total approximately £950 million in the second half.

ABN AMRO

At 30 November, ABN AMRO had exposure of £1.7 billion to super senior tranches of high grade ABS CDOs, net of hedges and write-downs, and no exposure to mezzanine ABS CDOs. ABN AMRO also held a trading inventory of junior CDO tranches and mortgage-backed securities totalling £0.05 billion, net of hedges and write-downs. ABN AMRO has no exposure to SIVs or SIV-Lites.

	Exposure net of hedges and write- downs at 30 November *£m*	*Average price post write-down* *%*
Super senior tranches of ABS CDOs		
High grade CDOs	1,667	90
Mezzanine CDOs	0	n/a
CDO squared	0	n/a
Sub-prime trading inventory	51	26
Residuals	0	n/a

Applying the same valuation methodology used by GBM, we expect to book write-downs in income on ABN AMRO's exposure to US-mortgage related assets totalling approximately £300 million in the second half.

These write-downs will be reflected in 2007 results for ABN AMRO but will not affect the Group's earnings as they will be dealt with as part of the acquisition accounting adjustments. (Emphasis added)

51. Also on December 6, 2007, RBS held an earnings conference call with investors and financial analysts. During the conference call, defendant Goodwin stated:

In the ordinary way we've tried to be fairly straightforward in what we're saying. There are not intended to be any hidden messages or themes in here. The announcement's a little bit longer than usual to allow us to explain some of how we're getting on with ABN Amro and also to set out our respective positions in the credit market --- in relation to the credit markets and the write-downs that we've taken again. So we hope you find that that's helpful.

> And the picture it presents of the Group I think is both clear and strong. ***We are expecting to deliver results well ahead of market consensus for the old RBS, and even stripping out the credit write-downs and the gains we still expect to be comfortably ahead of consensus. ABN Amro earnings after provisioning on an RBS basis consistent with the previous guidance and the integration of ABN itself progressing well.***
>
> * * *
>
> I think though just to recap, it looks as if the RBS business, excluding ABN Amro, is heading to operating profit and earnings per share for '07 well ahead of market consensus. Our capital ratios will be comfortably within the target ranges that we set out before. The deterioration in second half does amount to GBP950m but it's been offset by the disposals that we've planned, disposals that we spoke of. ***Net of the disposals and the write downs we still expect to be comfortably ahead of consensus. ABN Amro will be in line with previous guidance, after taking markdowns on a basis consistent with RBS. And the integration is progressing well.***
>
> I think it's again a moment in time just to reflect on the diversity of the Group, and the ability, consequent ability to deliver good results, and a fairly consistent underlying earnings trajectory. ***The acquisition of ABN Amro has rarely seemed more attractive and relevant than it does at this point, and it enhances that diversity and gets us into some rapidly expanding markets.*** (Emphasis added)

52. Additionally, during the December 6, 2007 conference call, the defendants solicited and responded to questions from financial analysts and investors, and stated:

> ANALYST: I've got a couple of questions please. In terms of your comments regarding the better financial returns from ABN, can you please disclose what the adjustments have been to your total investment?
>
> And also more specifically, have you made any change to your original assumptions in terms of what you guided us on the CAGR of 8% income, 6% on the costs, 10% on the provisions? And I have a second one on the capital please.
>
> SIR FRED GOODWIN: The second part of your question doesn't ring any bells with me, Carla. The first part of it, we'll be getting round to that when we provide a more detailed update in February. ***But in short, we're seeing the synergies, both revenue and cost we've already surpassed in terms of things we've got banked as it were in terms of our confidence about the delivery, greater numbers than we had published at the time of the bid.*** We're also seeing good growth in the business, at the underlying business, especially in Asia. ***So that's really the premise for the comments that we've made that we think the return on the investment will be higher than we posted and the EPS also, the accretion will also be higher.***

* * *

ANALYST: Could I just have just a quick one on the write-downs because I think it's an issue that's been blown up out of all proportion in any case. ***But just on what you have written down, on the mezzanine CDO for instance, the size of your write-down seems a bit lower than some of the other banks out there. I just wondered how conservative you think you've been or are you limited by auditors etc. in exactly how much you can write down these exposures?***

FRED GOODWIN: I think Tom, I think -- I have some sympathy with the comment, Tom, but firstly it wouldn't be our suggestion, my sense that we are lower than others. There are quite a range of these. And as you know yourself, the vintage is important, so when they were written, what age they are, as to how much of a write-down you would take. Also there's quite a bit of difference as to which state you're exposed to. So there's quite a complicated model here that's gone loan by loan, state by state and gone through to calculate where we're at.

So we feel these are pretty conservative. That's not to say it's impossible that they could go up. But we've tried to be prudent in our judgment. We've used all the data available at this point in time. We've made what we consider to be prudential adjustments to the calculations and projections we've used to project. Because as you will well appreciate, we're trying to project what we think the total delinquencies over the life of these instruments will be and as ever there could be vagaries in all of that. But we've tried to be prudent with this. It does make it difficult to compare between organization A and organization B.

* * *

ANALYST: A follow-on question on the write-downs. I just wanted to understand if your write-downs were based on mark to market or mark to model?

And also when you look at some of the values after the write-downs, 90% for higher grade and 70% for mezzanine. ***Some of your competitors have pushed their write-downs a bit lower and I wanted to know what your thoughts were on that?***

GUY WHITTAKER: The model piece relates to the super senior CDO tranches. The inventory referred to in the appendix is related to market observable prices. The same would be true for the leveraged loans to the extent there are market comparables and benchmarks that have been used. And I think one of Fred's earlier comments on the approach to the modeling and the valuations that have applied is --- I'm not sure there's anything more to add to that.

ANALYST: And in terms of the ---

FRED GOODWIN: ***I think we do sit quite well in the range of numbers used again, just to be clear.***

* * *

ANALYST: Just a follow-up again on the write-downs. Just to be clear, the write-downs that you've announced today, are they all that you expect through to the end of '07 or the end of '08? Is there a timetable on that?

FRED GOODWIN: Well the way the write-down works, Sandy, is the model attempts to predict what it thinks delinquency will be across the life of the instrument. Because it's important that if delinquency stopped at its current level we wouldn't lose any money. ***The question here is that there's a belief that delinquency will carry on and reach levels which would cause us to lose money. And so in our models we've used the delinquency data to date, and we've modeled, going forward, what the rate of delinquency looks like and what the total level of delinquency might reach. And based on that have come up with a calculation of what the losses would be. So if delinquency from here unfolds in line with those models, then these are all the provisions we would need.***

* * *

ANALYST: I just had a few questions actually. I think a couple of them probably can just be knocked off very quickly. The first is are there any write downs taken directly to reserves, i.e. essentially classified as AFS rather than on the face of the P&L, that we should be aware of?

GUY WHITTAKER: No, and there are no exposures in the Bank (inaudible) to these sorts of instruments.

ANALYST: Okay, thank you. Secondly, ***other than the already identified GBP300m write down are there any other fair value adjustments for the ABN acquisition that we are likely to see?*** I guess realistically they are at the trading update -- the full year results or the report and accounts stage?

FRED GOODWIN: ***Nothing too drastic at this point Simon. There is here's and there's but there is nothing that has caught the eye at this point.*** (Emphasis added)

53. On February 28, 2008, RBS filed a Form 6-K with the SEC reporting the Company's annual financial and operational results for the year ended December 31, 2007. The Form 6-K included the following highlights for the year:

RBS GROUP – including ABN AMRO

- Group operating profit up 9% to £10,282 million
- Profit after tax up 19% to £7,712 million

- Adjusted earnings per ordinary share up 18% to 78.7 p
- Total dividend up 10% to 33.2p
- Tier 1 capital ratio 7.3%
- Total capital ratio 11.2%
- Underlying performance of retained ABN AMRO businesses in line with expectations
- Synergies increased by 33% to €2.3 billion
- Improved financial returns and earnings accretion

RBS - excluding ABN AMRO

- Operating profit up 9% to £10,298 million
- Profit after tax up 22% to £7,940 million
- Adjusted earnings per ordinary share up 22% to 81.7p
- Income up 3% to £28,864 million
- Cost:income ratio down to 40.7 % from 42.1%
- Impairment losses declined to 0.40% of loans and advances from 0.46% in 2006

(Internal references omitted)

54. The February 28, 2008 Form 6-K also contained a section entitled "Group Chief Executive's Review" which stated:

> The diversity and quality of our business platform enabled us to deliver good financial results, with operating profit for the enlarged RBS Group rising by 9% to £10,282 million. Adjusted earnings per share increased by 18% to 78.7p. Our earnings momentum remained powerful, notwithstanding the impact of challenging credit market conditions in the second half of the year.
>
> Our Group headline results reflect the inclusion of the whole of ABN AMRO, whose results from 17 October 2007 are consolidated in our statutory accounts. ABN AMRO has enhanced the diversity of the Group, giving us a pre-eminent position in global corporate banking and providing us with new capabilities in transaction banking while presenting additional retail and commercial growth opportunities in Asia and the Middle-East.

RBS excluding ABN AMRO

> Our operating performance in 2007 is best seen in the results of RBS excluding the 76 days of ownership of ABN AMRO. We continued our strong momentum, with total income increasing by 3% to £28,864 million and operating profit by 9% to £10,298 million. Adjusted earnings per share rose by 22% to 81.7p, benefiting from a lower than usual tax rate of 21%.
>
> These results have been held back by the second half credit market deterioration, which led our Global Banking & Markets division to incur write-downs on its US mortgage-related and leveraged finance exposures. ***The valuations of our credit market positions have been stable since our trading update in December.*** However, the weakening credit profile of some financial guarantors has caused us to mark down the value of our positions with these counterparties.
>
> * * *
>
> Our businesses demonstrated the value of diversification, delivering good growth in our major customer bases in corporate, commercial and retail banking. We achieved particularly strong performances in UK Corporate Banking, Retail, Ulster and Wealth Management. Total RBS income rose by 3% to £28,864 million, while costs were reduced by 1% to £12,173 million, resulting in a further improvement in the cost:income ratio to 40.7%. ***Against a weaker economic backdrop in the US, Citizens, whilst performing well relative to its peers, experienced testing conditions***, while otherwise good results in Insurance were set back by the exceptionally severe flooding that affected many of our UK customers in June and July.
>
> ***Overall credit metrics remained very strong, and impairment losses declined by 1% to £1,865 million.*** As a result of our cautious approach to the UK personal credit market, in particular to the direct loans market, we achieved a further reduction in UK personal impairments, and the credit quality of our UK corporate customers remained stable in 2007. ***We have taken active steps to manage our risk profile and ensure that our lending portfolio remains appropriately positioned, nowhere more so than in the US, where the overall quality of our book remains high but we have experienced a reversion from the low levels of impairment seen in recent years.*** (Emphasis added)

55. The "Group Chief Executive's Review" contained in the February 28, 2008 Form 6-K also discussed the Company's business lines, including Citizens and ABN AMRO:

> Citizens has continued to develop its franchise, increasing its consumer banking customer base by 2% and achieving good results in its growing corporate and commercial banking operations. Market conditions remain difficult, however, and we continued to respond to challenging income prospects with tight cost control. ***The credit quality of the Citizens portfolio is high, although we have seen***

impairment losses reverting from the very low levels seen in recent years, resulting in a 9% decrease in operating profit to $2,647 million. With the dollar weaker over the year, this decline was more marked in sterling terms.

* * *

ABN AMRO

The acquisition of ABN AMRO gives us the ability to accelerate our existing strategies for growth outside the UK, particularly in rapidly expanding markets, while adding complementary product capabilities and customer franchises to our portfolio of businesses.

* * *

The integration has made a strong start, and we have identified additional cost savings and revenue benefits over and above those we originally anticipated. We now expect to achieve cost savings totalling €1,596 million in three years, 21% more than we originally indicated. We have identified another €100m of net revenue benefits in Global Banking & Markets and €200m in the International Retail businesses, bringing the total for net revenue benefits we expect to achieve in three years to €688 million. ***All told, integration benefits are now expected to total €2.3 billion, compared with our original estimate of €1.7 billion.***

Applying these increased synergies to the financial targets originally announced in our offer would have yielded increased accretion in adjusted earnings per share of 9%, a return on investment in 2010 of 16% and an internal rate of return of 18%.

* * *

For 2007 as a whole, the ABN AMRO businesses that will be retained by RBS made an underlying operating profit of £439 million. ***We have concluded our initial review of the ABN AMRO balance sheet and applying RBS valuation methodologies have recorded a reduction of £978 million in the carrying value of financial instruments we acquired.*** While credit market activities reflected the prevailing market conditions, equities, currencies and rates all achieved good growth. Transaction banking maintained good momentum and the Asian retail operations achieved very strong growth. (Emphasis added)

56. Also on February 28, 2008, RBS held a presentation for investors and financial analysts. During the presentation, defendants Whittaker, Goodwin and Cameron stated:

GUY WHITTAKER: ***As we highlighted at the trading statement we took a number of marks related to credit markets principally in the second half of the year. We remain comfortable with the marks that we took at the trading statement and we remain so. However, in the light I think of the weaker credit***

profile of some of the monoline financial guarantors that we had exposure to, we announced this morning an additional GBP4

So if you take the GBP950 million number that we talked about at the trading statement, we add about GBP150 million or so for the first half write-downs that were incorporated in the results that we shared with you back in August and the GBP456 million as of today, ***you see total write-downs to the credit markets netted out at GBP1.6 billion***. You take the costs associated with these deals out of the profit line, it impacted our profits by about GBP1.1 billion.

* * *

In the year end review we looked at the ABN high grade super senior CDO and we've took an additional 10 percentage points write-down to that, marking it down from 90 to 80 and that's incorporated in the weighted average price that you see in the top right-hand corner of this page.

As I say the aggregate ABN combined year of exposure to both our CDO exposures, all subprime inventory, any residual securitization activity and our leveraged finance book.

* * *

The Citizens Group, I think you would describe it as a resilient performance against a weaker economic backdrop. After a number of years of declines net interest margins started to widen in 2007 and this led to net interest income growing by about 3 percentage points on fairly modest balance sheet growth. We saw good progress in our Corporate and Commercial expansion with lending up 13%. We kept a very tight rein on costs and profits before impairment lines were up over 5 percentage points.

However I think the stand out number on the page from historic lows of around 30 basis points, we started to see some rise in impairment costs in 2007. In part these were due to planned growth in the Corporate lending book, in part of course related to the weaker housing market and also in the fourth quarter in some considerable part to build our reserves in that business. Overall the portfolio remains very high quality and our retail customer FICO scores on average are above 700.

* * *

For the ABN Amro businesses that we [acquired], an operating profit of around EUR640 million for the year off income of just under EUR7 billion. It's kind of in line with where we thought they would be, probably slightly ahead of the equivalent number last year. We saw some year-on-year improvements in equities, in rates, in currencies in some of the local markets activities. We saw 7% rise in transaction banking, our International Retail customer base grew by about 12 percentage points, but as you've seen from the very earlier slides, an 86% cost

income ratio something with which we are not familiar at RBS and ***not surprisingly in the time of ownership we've identified some additional synergies which Fred will talk about later.***

* * *

FRED GOODWIN: Acquisition of ABN Amro. Again in the interest of time, I'm not going to go through all of the clocks and dials about how every single thing is going. I'm very happy to answer questions on that as I know Mark would be and others. ***But I think the main news is that with a view of all of the businesses, a positive view we had of the ABN businesses has been confirmed.*** We've had very good engagement with the regulator in The Netherlands and indeed elsewhere and with the staff councils, the works council, a very good -- and important relationships in both cases.

* * *

JOHNNY CAMERON: It's an important opportunity, integrating ABN. We've told you before what we're trying to do here; we're trying to exploit the larger customer franchise, the greater geographic reach and our much broader product range. It's a progression of what we were doing in RBS before, but there's no doubt that the ABN acquisition accelerates that very, very significantly.

And in particular, and something perhaps we haven't highlighted enough yet, is our position now as a real leader in Global Transaction Services. So I'll talk about that a little bit more. The point I want to leave you with is that we've got much greater diversification in 2008 than we had in 2007 and that leaves us better placed to face the future. Let me just run through these points very briefly.

This is the slide that Fred and others used in the acquisition, you've all seen it hundreds of times I think. It just makes the point that ABN and RBS coming together in a Global Banking and Market's arena, we're much stronger by product, we're much stronger in geographic terms and we're much stronger in client terms, in terms of the enlarged customer franchise. You've seen it a lot before. I'm just putting it up because I wanted to remind you that is the anchor for what we're trying to do in GBM.

* * *

FRED GOODWIN: Just turning to the performance of the business in 2007 and looking, I'll just emphasize this, underlying income as we've defined it, and this is 2007, you can see here, and there are two key points to bring out immediately. Diversity, that we have a diverse range of products, and diversity of growth so you can see here, as we've mentioned already, that rates and currencies had a very strong year in 2007 in both banks, particularly in RBS perhaps.

Not surprisingly you can see that securitization and asset-backed and CDOs quite significantly down in terms of income. And then the bottom two rows are worth

highlighting underlining that Asset & Portfolio Management, Global Transaction Services, which are basically stable businesses.; that's where all the net income lies in Asset & Portfolio Management and Global Transaction Services, as I've emphasized, it's deposit income and fee income. They're very large, stable, but growing businesses, in the case of Global Transaction Services. (Emphasis added.)

57. Additionally, during the February 28, 2008 presentation, the defendants solicited and responded to questions from financial analysts and investors, and stated:

> ANALYST: ***I've always believed that your acquisition of ABN would destroy less value that Charter One. And I guess today you're inviting us to dream that it might not destroy any value at all. It might even create value.*** And your foray into Bank of China looks like genius, you've quadrupled your money. ***Now shareholders opposed both the investment in Bank of China and the acquisition of ABN. Do you think this proves that shareholders often don't know what's good for them and validates your decision to sometimes do some very unpopular things?***
>
> FRED GOODWIN: I think you're trying to be helpful, James. I don't think -- it sounds a bit like a hospital pass. I think we are happy with -- our shareholders supported us in ABN Amro transactions and I think supported us in the Charter One transaction and we're happy with that and we're determined to deliver value to them through these transactions. Bank of China, we've delivered value, Bank of China. ***There are no -- you infer some sort of difficulty or angst between us and shareholders, it's not felt from this perspective.***
>
> * * *
>
> ANALYST: The second question is very deep in the release as well, on page 59. Could you just talk a little bit about the GBP33 billion of assets? And there is an offsetting liability as well, which is smaller, of assets where there's no observable input, so I guess the valuation and -- there's been no losses taken against those to date, if I'm right. And what your thoughts are about the potential losses, where we can't actually see a market valuation?
>
> JOHNNY CAMERON: Shall I take that one as well? There's some narrative underneath, we've tried to describe them and I would say there have been some losses taken against it because included in those are the high grades and mezzanine CDO exposures that I outlined earlier, as well as some of the other inventory that is in there. ***You can see there's certain structured debt securities, certain over-the-counter derivatives, certain syndicated loans that have been part of that group. As I say, in total terms it represents around 3%, slightly less than 3%, of assets. And, you can imagine, these are subject to scrutiny and review from all interested parties. So the numbers you see today fully reflect all that we know about them.***

* * *

ANALYST: Could I follow on that with some questions on the balance sheet please? In your commentary about the end of the period when you split off, you'd expect to be roughly at these kind of levels, can you say whether that statement includes any capital raisings or disposals, other than the announced split offs?

GUY WHITTAKER: [I can't say] anything of that nature, there are no unusual disposals, capital raisings or one-timers in that. The plans are principally built around the business performance and the capital generation that we typically demonstrate.

ANALYST: What I'm checking there is how we read into that, is -- whether that's an aspiration or whether you've actually got plans as you currently stand, with the Group as it is, without making additional disposals or raisings, other than you've already announced, to get to that target? That's why I'm asking the question.

TOM MCKILLOP: Fred, yes.

FRED GOODWIN: The short answer is, we do Robert, that's -- we don't tend to throw numbers out unless we've got some idea how we're going to do them, but anything relating to the future, ultimately is an aspiration. But you'll see from the results we're delivering today for the incremental synergies we expect from ABN Amro and from our historic track record in generating profit and driving these ratios up are the basis for the comments where Guy very accurately described what we're planning to do. ***There are no plans for inorganic capital raisings or anything of the sort.***

* * *

ANALYST: And [a] second question if I can, just operationally actually, is just on the credit trends in the United States, I guess for [Ellen], but I'm not sure. Second half of the year, looked like Citizens credit [costs] went from $160 million in the first half of the year, to over $500 million charge in the second half, so clearly a huge increase half-on-half. Clearly, there's some reserve build in Q4. The question really is really, what should we be expecting for '08? Does the second half of '07 form a good run rate in terms of the likely shape of the credit charges for '08, does the environment deteriorate from here, or does the reserve build in Q4 just mean we should ignore the second half '07 as an aberration?

UNIDENTIFIED COMPANY REPRESENTATIVE: Sure, in the second half of last year we did increase the impairment at Citizens, but you have to realize it was coming from a very, very low base. Part of that impairment was actual charge-offs in commercial, commercial real estate and in home equity. The other large part of it was we increased our reserves against the portfolio. ***All said though, our impairment is only about 60 basis points on the entire portfolio, which is very low. It reflects the conservative credit policies that Citizens has had in the past.***

And as I believe Guy and Fred mentioned earlier, over 70 FICO scores average over 700 on the portfolio, 97% of our facilities are secured.

ANALYST: And what would your expectations be for the year ahead?

UNIDENTIFIED COMPANY REPRESENTATIVE: It would just be -- there's going to be continued pressure in the housing market, ***but we feel we're comfortable with our reserve levels at Citizens***.

* * *

UNIDENTIFIED AUDIENCE MEMBER: Yes I'll keep it succinct. The -- just first question on the CDO exposures. Thanks for the exposure, their net of hedging, can you give an idea of what the overall hedging coverage is on the CDO book etc.? And specifically in the CDO squared side it was a zero exposure to CDO squared, should we take that to mean that there's no exposure to synthetic CDOs?

TOM MCKILLOP: Do you want to take that [item]?.

GUY WHITTAKER: There's no exposure to CDO squared, synthetic CDOs are very similar exposure to synthetic CDOs. But they are included in those totals, they are a notional amount which includes both the funded and unfunded CDOs.

* * *

ANALYST: On the non-observable inputs which Tom was asking about, there's clearly a hell of a lot of assets that must have an active market. I've got a lot of feedback from investors that obviously invest in bonds and they can't believe at the moment that the banks can actually find active prices because a lot of the bond markets are frozen up. So I was just wondering, in the active part, is there any of mark-to-model within that book as well, or is that all genuine mark-to-market on the rest of the balance sheet?

JOHNNY CAMERON: The quick answer is everything in our balance sheet is genuine, it's all audited and if we say it's level 1 it's level 1 and mark to an observable price. Level 2 is the grey area and level 3 is unobservable input as reported.

* * *

ANALYST: A similar theme, some questions about the credit market exposures. I think you've made it plain that everything is fair value to where you can and you seem to be making a distinction between your trading book to the ABS CDOs which are proprietary models and other things. You've noted that the overall marks for most of this is much the same at end December as at end November, whereas to the extent that one can observe things like some of the indices, there was a deterioration in some areas in December. So I'm wondering if, is this

because your particular portfolio and detachment points didn't deteriorate in line with the market or because your methodology means that you didn't experience any movement relative to November?

And then on a slightly different area, or two slightly related questions. One is I think you've indicted an extra 10% on some of the ABN exposures which looks like about GBP100 million, did that go through the consolidated income statement or was it part of the fair value adjustments?

And then finally on this area, you've disposed some Alt-A net exposures of GBP2.2 billion, I'm not sure if that's quite on the same basis as you discussed in the conference call. Could you just say what your view on the integrity of that is or at least on the -- how that's performing?

TOM MCKILLOP: I'll just remind you that we issued - yes I'll come to you in moment, ***we issued our trading statement based on later data than most other organizations and indeed on a very prudent basis***, so that's the background to the trading statement. But Guy can you pick up on --?

GUY WHITTAKER: I think what we tried to do at the trading statement was clearly take not just the output from our model but to the extent the accounting allowed to put in some sort of prudent buffer in place. I think it's fair to say there was actually no movement in the ABN -- ABX index between November and December. In fact if anything, it moves slightly higher.

You rightly say that these instruments are specific rather than generic in their characters. We took a -- characteristics, ***we took another look at the ABN portfolio and we felt it prudent to take an additional 10% mark that was around the number that you've indicated and that was reflected as a pre-acquisition adjustment taken as -- through the balance sheet.***

ANALYST: And of the Alt-A is that a different (inaudible) from what you discussed at the trading statement and has there been any impairment in that?

GUY WHITTAKER: Alt-As, not –

TOM MCKILLOP: Johnny do you want to take that?

JOHNNY CAMERON: Sure yes. We have -- the Alt-A portfolio, we have taken a few minor marks through the P&L. It's not viewed as unusual, so it's not [a brought] out, but they're small numbers. The vast bulk of Alt-A is AAA, we've marked the small amount that's not investment grade down to a very low price.

* * *

UNIDENTIFIED AUDIENCE MEMBER: I was -- the assets that you've given out, I was wondering if you've got any just normal residential mortgage-backed securities either in the US or European? There's no actual just normal residential

> mortgage-backed securities that you're disclosing on your balance sheet, I was just wondering -- it's just quite strange that there isn't any there, I was just wondering how many there is?
>
> GUY WHITTAKER: Yes is the answer. There's a portfolio of some mortgage-backed securities in Citizens, that's long been part of the, if you like, the natural hedging program to the retail deposit base covering the precise (inaudible) around the GBP20 billion number of principally agency collateral, agency securities. So bog standard US conforming mortgage stuff. Dotted around European and the UK I'm not aware of any –
>
> TOM MCKILLOP: ABN.
>
> JOHNNY CAMERON: Has a significant portfolio of European RMBS.
>
> UNIDENTIFIED AUDIENCE MEMBER: Right, any idea of value?
>
> JOHNNY CAMERON: Yes, why don't we do that afterwards, I haven't got the number here but (inaudible).
>
> UNIDENTIFIED COMPANY REPRESENTATIVE: The exact number for Citizens is $27 billion.
>
> UNIDENTIFIED AUDIENCE MEMBER: Thanks, dollars?
>
> UNIDENTIFIED COMPANY REPRESENTATIVE: Dollars.
>
> (Emphasis added)

58. On April 22, 2008, less than two months after the February 28, 2008 earnings presentation when defendant Goodwin stated that "there are no plans for inorganic capital raising or anything of that sort," RBS announced that it would sell ***£12 Billion*** (approximately $24 billion) of shares to investors. As *Bloomberg* reported:

> Royal Bank of Scotland Group Plc, the U.K. lender reeling from asset writedowns, will sell 12 billion pounds ($24 billion) of shares to investors in Europe's largest rights offer and cut the dividend.
>
> * * *
>
> The Scottish company paid "a very high price" for ABN Amro, buying the investment banking and Asian units for 14.3 billion euros ($22.7 billion), McKillop said on the call. "`We increased our exposure to wholesale markets at what has turned out to be an unfortunate time."

> RBS has lost almost half its market value in the past year. It fell 14.5 pence to 358 pence today, valuing it at 35.9 billion pounds. The Bloomberg Europe Banks and Financial Services Index fell 0.9 percent.
>
> * * *
>
> "I'm absolutely amazed there are no casualties, there doesn't seem to be anyone who's taking the blame," said Colin Morton at Rensburg Fund Management in Leeds, England, who owns RBS shares among 1.6 billion pounds under management. ***"A few months ago they were raising the dividend, now they're having the biggest-ever rights issue."***
>
> ***The bank plans to issue 11 new shares for every 18 existing shares at 200 pence each, or 46 percent below yesterday's close. The offer could dilute existing shareholdings by as much as 38 percent*** and, according to estimates by Keefe Bruyette & Woods, means RBS may earn 45 pence a share in 2008 instead of 67.9 pence. (Emphasis added)

59. Also on April 22, 2008, RBS held a conference call with investors and financial analysts. During this conference call, the defendants were questioned about the ABN acquisition and its impact on RBS. In response, while accepting "responsibility" for the ABN AMRO acquisition, the defendants continued to conceal the full extent of the impact that ABN had, and was having, on the Company. For example, defendant Goodwin stated:

> Overall credit metrics have remained strong, there are some modest uptakes and there are some modest [downticks] in credit but overall the metrics have really been strong. ***And ABN AMRO synergies remain broadly on plan***, I think cost is slightly ahead, revenue is slightly behind, but we're talking single digit numbers [of] millions, so not really -- not a material amount. (Emphasis added)

60. In further discussing these topics, during the April 22, 2008 conference call the defendants solicited and responded to questions from financial analysts and investors:

> ANALYST: Does the Board -- I know a lot of things have happened this year, in the last few months, but does the Board actually recognize that some of the culpability for the situation rests with them? I'm thinking particularly about the ABN situation, the failure to try to renegotiate the price for ABN which given that set backs in capital markets are becoming evident just as that acquisition was being sealed?
>
> TOM MCKILLOP: ***The Board of course accepts responsibility, it supervises the Bank, it supervises the management and so on. And equally management***

> ***accept their responsibility for events that were within our control.*** Many of them are externally driven, but yes of course we accept full responsibility for the position we're in and we recognize the importance of taking the actions and moving forward from here. … ***You can also say that we increased our exposure to wholesale markets at an unfortunate time, that is true, so we accept those points. But as I indicated in my introductory comments, ABN Amro combined with the RBS business, is going to deliver excellent synergies, synergies that are substantially higher than the original case and are broadly on track to deliver that.*** It also is opening up many, many options for us, many parts of the ABN businesses are performing very well and are very robust to the economic environment we're in today. They also give us much increased presence in areas of the world where the economic outlook is nothing like so gloomy. (Emphasis added)

61. Additionally, during the April 22, 2008 conference call, the defendants discussed and fielded questions from financial analysts about the level of write-downs taken by the Company:

> GUY WHITTAKER: The first set of assets really relate to those assets which were impacted or are impacted by the US subprime market and other real estate related exposures. A combination of estimated write-downs in these assets is a cumulative GBP3.3 million. ***In incorporating that, we have taken a very cautious view of the marks***, we have reviewed these internally, we have reviewed these also as part of the underwriters due diligence and in doing so we have come to the conclusion that our high grade CDOs would come down from $0.84 to $0.52, in the dollar, and the mezzanine down from $0.70 to $0.20, you can see the impact on a pre-tax basis on the right-hand side.
>
> Other inventory of residential mortgage backed securities, often with more observable and in some cases dealable prices, you will notice there's has been some reduction in volume since the year-end as a number of these assets, albeit in relatively small parcels, have started to move off the balance sheet. You can see the marks materially lower that are put against both assets. And additionally we've taken some further marks in our US commercial mortgage backed exposure. So the accumulative impact of these adding to GBP3.3 billion.
>
> [We've] looked at our exposures to financial guarantors or monolines and we have at this stage a gross exposure of GBP6.2 billion, that represents the difference between the notional GBP25 billion worth of exposure and the underlying fair value of those assets estimated at GBP18.8 billion.
>
> We've taken accumulative write-downs on those adding to GBP2.7 billion, of which GBP900 was recognized in the 2007 year end accounts leaving us with a net exposure of GBP3.2 billion. Importantly, of this residual exposure, GBP2.7 billion relates to AAA and AA rated collateral. A further GBP200 million to A

and BBB still investment grade collateral and less than 10% or GBP300 million to non-investment grade collateral.

* * *

ANALYST: ***I was just wondering, given the inflated price that you paid for ABN and the way the world has changed and the challenges facing GBM, what the likelihood is of a material impairment against the goodwill you paid that you have in your books for ABN?***

TOM MCKILLOP: Fred, do want to comment?

FRED GOODWIN: I think you covered it earlier, Tom, in terms of your view of the business. We're six months into the ownership of ABN Amro; we're in the depths of a global financial crisis. I don't think that's the point at which to start making too precise judgments about these things. ***We'll see that we believe, as the Chairman described earlier, that the underlying business case remains robust, these are good businesses, they're businesses that have synergies with our business and give us new opportunities and improve our franchise going forward.***

* * *

ANALYST: The second area was in terms of the write-downs you've taken, there's already been one question about what's changed. Perhaps I could ask it a different way. There's obviously been a change in the market, there's been a change in inputs you would make, ***have you made any more conservative assumptions at this point versus where you were when you announced your full year figures rather than in changes in market observables that have gone into these write-downs?***

TOM MCKILLOP: Guy can you also --?

ANALYST: Sorry, and a follow up, can you comment on how much of these write-downs are to do with ABN Amro assets and how much are to do with pre-existing RBS assets?

GUY WHITTAKER: I think and I'm sure you would expect in the context of a capital raising exercise and all the various estimates that go into that, one of the absolutely clear messages that we received is that we must make sure that we raise sufficient capital to meet and be able to operate above those targets. ***And so we have, I think it's fair to say, taken a very prudent view in coming up with these estimates, both in terms of the underlying assumptions where there are not market observable prices and in the case there have been observable but wide prices a very prudent view of bid levels and the attendant liquidity.***

As far as the underlying distribution of those assets are concerned, to the second part of your question, about one-third of the markdown is related to

> ***assets which were on the ABN balance sheet at the time of acquisition, around <u>two-thirds</u> on the RBS balance sheet.*** (Emphasis added)

62. Additionally, in response to questions from financial analysts regarding the Company's Global Banking & Markets division's earning power, during the April 22, 2008 conference call the defendants stated:

> ANALYST: The [more frustrating] question was just on GBM's earnings power. And I just wanted to bring together various comments that I think I've picked up. GBM at the end of last year had GBP580 billion sterling of total assets, about GBP150 billion of risk rated assets. First of all, did I understand correctly that those balance sheet footings within GBM are now shrinking? Is that the case?
>
> TOM MCKILLOP: Yes, who wants to take that?
>
> GUY WHITTAKER: The GBM balance sheet plans for 2008, actually forecast some growth. I think as part of this exercise, it's in two areas, the risk rated asset growth is still being managed very carefully and managed for performance and returns. We spent most of this morning so far talking about risk weighted gearing targets for the Group, but in parallel with this there are also some revisions made to nominal leverage, reflecting again some of the feedback we've had. And we are undertaking a program to bring some of the nominal gearing metrics back down and more into line more European norms.
>
> TOM MCKILLOP: Johnny?
>
> JOHNNY CAMERON: Just wanted to add to that, of course, what is going on, is we are integrating ABN this year. And there will be -- there always was in the plan the intention to reduce the combined risk weighted assets as we've brought the two businesses together, so that's in progress.
>
> TOM MCKILLOP: Okay?
>
> ANALYST: I'm sorry, apologies. But just can I, it's all connected -- connected to GBM then, ***can you give us some sense of what you think the earnings power of GBM will be in the new world? This is a division that's contributing sort of 40% or slightly more of your Group earnings***, it's clearly a division where there seems to have been a significant change in strategy in the last six weeks even. We're talking about balance sheet, flat to shrinkage, and certainly shrinkage in nominal terms, it sounds like a change in expectations in that business is actually influencing substantial capital raising. So can you actually kind of give us a sense?
>
> GUY WHITTAKER: I'll make a couple of comments but I wouldn't say there's been a complete change of strategy in GBM, we remain very focused on exploiting our customer franchise and working with our customers to grow the

> business. It's a long term growth strategy. In the markets we find ourselves in today, they are in some parts, dull, to put it mildly and credit markets in particular and we have to adjust to the very precise moment we find ourselves in. (Emphasis added)

63. On April 24, 2008, RBS filed a Form 6-K with the SEC providing excerpts of a speech given by defendant McKillop at the Company's annual meeting. The Form 6-K quoted defendant McKillop as stating:

> For RBS, excluding ABN AMRO, income grew by 3% in 2007 to almost £29 billion.
>
> * * *
>
> ***RBS was already one of the world's leading corporate banks but as result of the acquisition we can now lay claim to real pre-eminence in this field.*** As you will see from this slide our Global Banking and Markets customer franchise now ranks 1st in the UK and continental Europe and among the top 5 banks in both the United States and Asia. These are very strong positions that we could not previously have laid claim to.
>
> We also have improved product capabilities, for example through the addition of ABN AMRO's world-class business in global payments and trade finance. We now call the combined business Global Transaction Services, or simply GTS.
>
> And we have also added to our strategic options in some of the world's fastest-growing economies, notably in the emerging markets.
>
> ***The Board remains convinced that in the long term ABN AMRO will prove to add value for shareholders.***
>
> ***Over the last six months we have been able to confirm our positive view of the ABN AMRO businesses we have secured. Our teams have also had the opportunity to confirm their view of the financial benefits we can derive from combining our businesses.***
>
> ***Indeed, we now expect these benefits to be even greater than those we originally anticipated. By 2010, when we have completed the integration process, we expect to achieve synergies totalling almost 2.3 billion euros a year.***
>
> ***As a result, the financial returns are now expected to be even more attractive than we had thought when we were first considering this transaction.***
>
> * * *

> One significant element in our planning was our continuing exposure to a number of credit market assets including those related to the US mortgage market. We took some write-downs on these exposures in 2007 but in considering the appropriate size for our capital base the Board made an assessment of the likely amount of write-downs in 2008 that could result from the further deterioration in credit markets.
>
> We always keep our portfolio of businesses under review but in the context of our new capital targets we have identified for possible full or partial disposal a number of assets which are not central to the powerful UK and international banking franchises that RBS has built. These include RBS Insurance and a number of other smaller assets. Our capital plan assumes that these disposals could contribute approximately £4 billion to our capital during 2008.
>
> As you will have seen from yesterday's announcement, we propose to raise £12 billion of capital by a 11 for 18 rights issue.
>
> The new shares will be priced at 200 pence each, which represents a discount of 46% to the closing price of RBS shares on Monday, the night before the announcement. (Emphasis added)

64. On May 14, 2008, RBS filed a Form 20-F Annual Report for the fiscal year ended December 31, 2007. Therein, the Company detailed how ***no goodwill impairment was necessary*** as of December 31, 2007, and discussed the amount of goodwill on the Company's balance sheet and RBS's method of determining when a goodwill write-down was necessary:

> **Goodwill**
>
> The Group capitalises goodwill arising on the acquisition of businesses, as discussed in accounting policy 5. The carrying value of goodwill as at 31 December 2007 was £42,369 million (2006 – £17,889 million).
>
> Goodwill is the excess of the cost of an acquired business over the fair value of its net assets. The determination of the fair value of assets and liabilities of businesses acquired requires the exercise of management judgement; for example those financial assets and liabilities for which there are no quoted prices, and those non-financial assets where valuations reflect estimates of market conditions such as property. Different fair values would result in changes to the goodwill arising and to the post-acquisition performance of the acquisition. Goodwill is not amortised but is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.
>
> For the purposes of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash-generating units or groups of

cash-generating units expected to benefit from the combination. Goodwill impairment testing involves the comparison of the carrying value of a cash-generating unit or group of cash generating units with its recoverable amount. The recoverable amount is the higher of the unit's fair value and its value in use. Value in use is the present value of expected future cash flows from the cash-generating unit or group of cash-generating units. Fair value is the amount obtainable for the sale of the cash-generating unit in an arm's length transaction between knowledgeable, willing parties.

Impairment testing inherently involves a number of judgmental areas: the preparation of cash flow forecasts for periods that are beyond the normal requirements of management reporting; the assessment of the discount rate appropriate to the business; estimation of the fair value of cash-generating units; and the valuation of the separable assets of each business whose goodwill is being reviewed.

* * *

Impairment review

The Group's goodwill acquired in business combinations is reviewed annually at 30 September for impairment by comparing the recoverable amount of each cash generating unit (CGU) to which goodwill has been allocated with its carrying value.

The Group recognised goodwill of £23.3 billion following the preliminary allocation of fair values since acquiring ABN AMRO on 17 October 2007 (Note 35). ***Subsequent events have not significantly affected the assumptions and estimates supporting the consortium's investment decision and the Group has therefore concluded that there is no impairment of the goodwill recognised at 31 December 2007.*** (Emphasis added)

65. Additionally, the May 14, 2008 Form 20-F contained signed certifications by defendants Goodwin and Whittaker, which stated:

I, [Sir Frederick Anderson Goodwin / Guy Robert Whittaker], certify that:

1. I have reviewed this annual report on Form 20-F of The Royal Bank of Scotland Group plc;

2. Based on my knowledge, ***this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading*** with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, ***fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report***;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and we have:

   a) ***Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision***, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) ***Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting*** and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) ***Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures***, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

   a) ***All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information***; and

> b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting. (Emphasis added)

66. On May 20, 2008, RBS filed a Form 6-K with the SEC which contained excerpts of a speech given by defendant McKillop. The Form 6-K quoted defendant McKillop as stating:

> ***The Board believed that it was important to take a prudent view of the potential for further write-downs on our credit market exposures, so we have carried out a thorough assessment of these***, and have currently estimated for our capital planning purposes that the effect on our capital of write-downs could be £4.3 billion net of tax, or £5.9 billion before tax.
>
> Many financial institutions have been affected by such write-downs on structured credit assets. Nevertheless, we take the lessons that we have learnt from this experience very seriously and have discontinued some of these activities. ***We have also taken steps to strengthen the control environment in our Global Banking & Markets division.***
>
> As part of our capital planning exercise we also assessed the potential for realising capital gains by selling, in whole or in part, a number of assets. Among the assets we reviewed is RBS Insurance, which has been very much part of the family for many years and remains an excellent business, but is not central to the very strong banking franchises we have now built. Our capital plans assume that whole or partial disposals of this kind will contribute approximately £4 billion to our capital this year, almost offsetting the write-downs. Rest assured that we are determined to achieve full and fair value for any disposals we may make.
>
> Taking all of these elements together, we expect to generate £11.7 billion of net new capital and to have achieved our new target capital ratios by the end of 2008.
>
> * * *
>
> Looking ahead, RBS is now well-placed to generate growth from its businesses, and our ability to deliver on this potential will be the crucial test of our organisation. RBS has always prided itself on delivery - we have successfully achieved this in the past, and I and the leadership team are determined that we will not fall short this time.
>
> With a stronger capital base we will be better protected against an economic environment that remains uncertain, and will be better positioned to maintain the momentum in our core businesses. And I am confident that we will be able to maintain this momentum; although this environment is not without risk, those risks are now being rewarded with a greater premium than we have seen for some time, and we have been able to begin to rebuild margins in a number of businesses.

> ***And of course, we must deliver the benefits from the ABN AMRO integration - benefits that we now expect to total almost €2.3 billion a year, a third greater than our original expectation. Our management remains firmly focused on this task.*** (Emphasis added)

67. Despite reporting poor first half fiscal 2008 financial and operational results, the defendants continued to tout the ABN AMRO acquisition and RBS's capital position to investors. For example, on August 8, 2008, the Company filed a Form 6-K which contained a section entitled "Group Chief Executive's Review" and which stated:

> **ABN AMRO integration**
>
> The process of separating the ABN AMRO businesses and transferring them to their ultimate owners is proceeding smoothly. Asset Management and Banca Antonveneta passed successfully to their new owners during the first half while the transfer of Banco Real and certain other businesses to Santander concluded last month. We expect to complete the transfer of Private Clients to Fortis in the first half of 2009 and the remainder of the Netherlands activities will follow in the second half of 2009. Most shared assets have already been dealt with, leaving only some small private equity holdings and the Saudi Hollandi stake.
>
> ***As announced in February, we have identified additional cost savings and revenue benefits from the integration of ABN AMRO over and above those we originally anticipated. Our forecast is now for integration benefits totalling €2.3 billion annually (£1.6 billion) in 2010, almost four times the underlying profit before tax achieved in 2007 by the businesses we have acquired.***
>
> ***We are currently ahead of schedule in realising those benefits, with the amounts delivered so far running at almost twice what we anticipated at this early stage of the integration process.*** In the six months to June we have made cost savings ranging from headcount reductions to economies as mundane as cutting the price paid for printer cartridges. Together, these savings have contributed £135 million pre-tax profit to our first half results. In addition, we achieved £57 million of revenue synergies within our enlarged business in the first half, and ***now have concrete evidence from a stream of new business that we are achieving real gains from our broader footprint and product range.***
>
> ***The trading environment for credit markets and equities is currently dislocated, but the strategic rationale for the acquisition remains intact.*** Our global client franchises and complementary product strengths have materially enhanced Global Banking & Markets, while our Global Transaction Services platform has given us the capability to cross-sell a much greater range of cash management and trade finance services to our UK and global clients. We are also pleased with the international retail and commercial businesses we have acquired, while the

implementation of our manufacturing model on a global basis presents us with the opportunity to reduce costs significantly.

From our review of market conditions, we concluded in April that we needed to materially strengthen our capital base, and that to accomplish this we needed to conduct the rights issue which was completed in June.

Our capital plan set a target for our capital ratios to exceed 5.0% for core Tier 1 and 7.5% for Tier 1 by mid-year, on a proportional consolidated basis. In fact, our Core Tier 1 ratio at 30 June stood at 5.7% and we are on course to achieve our target level, in excess of 6%, by the end of the year. Our Tier 1 ratio at 30 June was 8.6%, already in excess of our target minimum. (Emphasis added)

68. Also on August 8, 2008, RBS held an earnings conference call with investors and financial analysts. During this call, defendants McKillop and Goodwin stated:

TOM MCKILLOP: The final important feature of today's presentations is the acquisition of parts of the ABN Amro business for a net consideration of GBP10 billion. The Board is fully engaged with the integration planned and in the delivery of the synergies. Fred's presentation will show ***we're on track to deliver the original promised synergies and more.***

But there's more to ABN than synergies. This acquisition accelerated our pre-existing strategy of earnings diversification and expansion into Asia. RBS now has well-diversified product ranges in mature economies and exciting franchise opportunities in the fast-growing economies. ***We are well-positioned to thrive in the competitive landscape the current storm will leave behind.***

* * *

FRED GOODWIN: So integration -- separation and integration both going well. I know it's a subject we'll return to again, but off to a good start and the start is always the most difficult part, just to go from a piece of paper with synergies on to actual delivered momentum.

Looking to -- as the Chairman mentioned earlier, we didn't buy the business for the synergies. ***We got the business for the underlying businesses and again as we've taken ownership, brought these under control and started to move forward with the combined management teams in the new business structure, we've been running through and validating the business rationale, the strategic rationale that was in our mind at the time we took the businesses over.***

And so far so good. What we thought was possible in these businesses still looks possible. And we believe it will happen. It does move us forward in the way in which we anticipated.

> Clearly what's different though, are the current trading prospects for some of the businesses. Some, but not all, a very crude assessment on the chart, that I grant you, but you get a sense that the real areas, and they're not small areas, but the areas where current market conditions fall short of what we might have expected at the time we set off on the transaction. And equities, difficult equity market. Not the end of the world, but more difficult than would have been ideal for the business. And in credit markets where -- I need hardly tell you what the markets have been like. That's impacted on the RBS business and the pieces we've acquired from ABN Amro.
>
> We're by no means despondent about the prospects for credit markets going forward, but just as to how things currently trade against where we thought, those are really the areas where it's pinching at this point. ***But the strategic rationale for the businesses and their acquisition remains intact.*** (Emphasis added)

69. Additionally, during the August 8, 2008 conference call defendant McKillop discussed the Company's capital position as follows:

> In view of the deteriorating environment, in April the Board acted quickly and prudently to set out a new capital plan for the business, including significantly raised target capital ratios.
>
> To us, the balance of risks had changed for the worse in the early months of 2008 and it was the Board's view that they were likely to remain so. Against that backdrop, we signaled that these conditions would lead us to take GBP5.9 billion of write-downs in our credit market exposures.
>
> The next step in the new capital plan was the completion of a GBP12 billion rights issue and we are grateful that over 95% of our shareholders supported the issue.
>
> ***I'm pleased to say we are also making good progress with the other elements of the plan and I've asked Fred to update you on the disposal program and the steps already taken to improve the efficiency of our balance sheet. We are now in a position where we will only dispose of other assets if the valuation is attractive to us.*** (Emphasis added)

70. On October 13, 2008, the Company issued a press release announcing that RBS was raising ***an additional £20 billion*** in capital. Despite announcing the departures of defendants McKillop, Goodwin and Cameron, the Company stated that "***[t]he integration of the RBS-acquired ABN AMRO businesses is proceeding ahead of schedule***." Further, in discussing the capital raising and the departure of these defendants, the press release stated:

Capital raising

In light of the current market concerns and their impact upon RBS, the Board has decided to take action to further strengthen the Group's capital base by raising an additional £20 billion of capital.

RBS intends to make an offer of ordinary shares to raise £15 billion of core tier 1 capital. The offer will be made by way of a Placing and Open Offer to Shareholders (the "Offer") and will be fully underwritten by HM Treasury ("HMT") at a fixed price of 65.5 pence per share. This represents an 8.5% discount to the closing price on 10 October 2008.

HM Treasury will in addition subscribe for £5 billion in Preference Shares with a coupon of 12%.

This capital raising will increase our pro-forma core tier 1 and tier 1 ratios by approximately 3 percentage points and 4 percentage points respectively, on a proportionally consolidated basis, significantly enhancing the Group's financial flexibility in the face of continuing turbulence and uncertainty in the financial markets. Our previously announced capital targets are for our core tier 1 ratio to exceed 6% and for a tier 1 ratio in the 7.5 – 8.5% range and, as a result of this capital raising, these current targets are substantially exceeded.

At the time of the launch of the Offer, RBS shareholders will be invited to subscribe for all or part of their entitlements. Any new shares not taken up by RBS shareholders will be placed with HM Treasury at a fixed price of 65.5 pence per share. New institutional investors may also be permitted to subscribe for new shares under the offer.

* * *

Board and Management

The Board has considered the implications of the current situation on the governance and management of the Group. HMT will work with the Board on its appointment of up to three new independent non-executive Directors who will bring relevant commercial experience and participate as appropriate in the principal committees of the Board.

The Board is appreciative of the contribution made by its Chief Executive, Sir Fred Goodwin, and his Executive Team. It recognises, however, that there should be a change of leadership in the Group and, accordingly, it has been agreed that ***Sir Fred Goodwin will step down*** and be replaced by Stephen Hester, currently Chief Executive of British Land and a non-executive director of the Group. Sir Fred Goodwin will continue for a short period as Chief Executive until Stephen Hester is released by British Land and to allow a smooth handover at both companies. In addition, ***Johnny Cameron, Chairman Global Markets, will step down from the Board with immediate effect***.

> ***Sir Tom McKillop, Chairman, has agreed to continue in office following the recapitalisation to complete the restructuring of the Board but will retire at the Group's Annual General Meeting in April 2009.***
>
> The Board expects to be fully engaged with peers and the authorities in developing its approach to compensation in the financial services industry whereby remuneration is linked to long-term value creation. No bonus will be awarded to any Board member in 2008 and any bonuses earned in 2009 will be paid in shares. Board members who are dismissed will receive a severance package which is reasonable and perceived as fair. (Emphasis added)

71. Also on October 13, 2008, the defendants held a conference call to discuss the £20 billion in capital that the Company needed to raise. During this conference call, the defendants responded to questions from financial analysts and stated:

> ANALYST: I guess the big question here now is, is there enough capital? It strikes me that the capital ratios are extremely strong now, but I suppose there is still quite a lot of gearing in the Group. And I just wonder if you could highlight to us what the vulnerabilities are, i.e. where you think that capital could be used up?
>
> And then -- and I'd include in that write-downs on existing assets, but also if you think there will be a period of unprofitable trading coming up over the next couple of years as the general macro environment deteriorates.
>
> And then I'd also be interested in, assuming that we make it through the next couple of years, I hope we will, what kind of return on equity you think would be a reasonable starting point for the Group in a more normal environment. Thanks.
>
> TOM MCKILLOP: That's quite a list. Let me start by saying I'm absolutely sure we will make it through the next few years. In fact more than that, I think we have very, very exciting opportunities now that we will have these very strong capital ratios, very, very good opportunities to grow the business strongly. So I have no doubt about that.
>
> The macroeconomic situation, everyone is entitled in these turbulent times to their own view. But I don't know many, or any, people who would see it as anything other than difficult over the next 18 months, two years. It's going to be very dependent on a whole series of interventions by governments. There will be a lot of adjustment to be made in individual economies. And of course the high interconnectedness now of economies around the world means that there will be knock-on effects from poor policy decisions in one place.
>
> So it's actually quite difficult to be prescriptive about this. I'm encouraged however that the seriousness of the situation is recognized. And it seems to me

> there is much, much more cohesion beginning to emerge. And that gives me real hope and confidence that we're going to see ourselves coming through it well.
>
> But Guy, do you want to pick up one or two of the earlier comments?
>
> GUY WHITTAKER: Yes, and I think, again, making heroic statements at this point certainly would be rather -- I think it is worth going back to the basic building blocks of the franchise we grew, even in this environment of pre-impairment profits by 6 percentage points in the first half of the year.
>
> Predicting the extent and the depth of the economic cycle, I think you have to put your own assumptions into that and make your own assumptions about what that would mean for the post-impairment line. But I think all of our businesses and all of our franchises are expected to generate significant profits on the pre-impairment line. These capital resources certainly give us the capacity to continue to develop those franchises which offer attractive risk-adjusted returns over the course of the medium term, are continuing to work on the process of de-levering and de-risking some of those activities which we no longer expect to continue either at the same level or at all.

72. On November 20, 2008, RBS filed a Form 6-K with the SEC which contained excerpts of a speech given by defendant McKillop to investors Therein, defendant McKillop stated, in relevant part:

> What began as a sub-prime mortgage crisis in the United States last year had evolved into a global financial crisis. During September 2008 the point was reached where confidence in the financial system itself was being called into question.
>
> This prompted a re-appraisal of capital ratios in the banking sector in Europe and the United States creating the expectation by market participants and governments that ratios should be strengthened to levels significantly higher than had previously been viewed as appropriate. ***In effect, the action the Board took in April, while viewed as radical at the time, had been overtaken by events over the subsequent six months.***
>
> * * *
>
> ***However, the [ABN AMRO] acquisition increased our exposure to those wholesale markets within which many of the problems have emerged during the course of this financial crisis.***
>
> In retrospect, the higher exposure to assets, which later became very difficult to trade, and the need to fund an enlarged balance sheet as access to liquidity became increasingly difficult, increased the short-term vulnerability of the Group to the financial crisis as it intensified this year.

> But let me be clear, the acquisition of ABN AMRO may now be seen with hindsight as having increased our exposure to the emerging crisis, but it did not cause it. ***We would have needed to strengthen our capital position in any event*** as is also evident from the capital raisings being undertaken by the majority of our UK competitors and other banks around the world.
>
> ***Nor is this to say that the synergy benefits from the ABN AMRO deal will not be delivered – they are fully on track – or that the options for growth did not improve – they have. However, with the benefit of the knowledge we now have, it is clear that the timing of this acquisition has added to our difficulties.***
>
> Our position reached a tipping point during October of this year as our share price suffered more than most other UK banks. Banks everywhere, however, were suffering as financial markets failed to improve and the global economy deteriorated rapidly.
>
> In the UK this prompted decisive action by the Government to support the banking sector. Recognising the gravity of the situation the banking system and the economy as a whole faced, the Government came forward with a well-considered package of measures to address this.
>
> As well as underwriting the recapitalisation of banks, support was provided to assist liquidity and funding for the sector. In fact, funding support was the key objective of the intervention given the crisis of confidence in the system.
>
> After careful consideration the Board decided the Group should avail itself of the offer. This was a package which had to be considered as a whole but the Board judged it was essential to the Group's ability to do business.
>
> ***We are therefore grateful for the Government's intervention.***
>
> (Emphasis added)

73. The statements contained in ¶¶ 47 – 57 and 59 – 72 were materially false and misleading when made because the defendants failed to disclose that: (1) RBS and its subsidiaries had accumulated significant quantities of subprime assets; (2) RBS's exposure to subprime assets required substantial write-downs; (3) RBS's acquisition of ABN AMRO was failing to generate the benefits touted by RBS and its management; (4) RBS's recorded goodwill for ABN AMRO was substantially impaired and required write-downs; (5) RBS's internal controls were not sound and were inadequate to facilitate proper asset valuation; and (6) RBS's

exposure to subprime assets would require the Company to raise significant amounts of capital to remain solvent.

The Truth Begins to Emerge

74. On January 19, 2009, RBS disclosed in a press release that, due to the volume of subprime exposure the Company had taken on between 2005 and 2008 and the failure of the ABN AMRO acquisition to yield the benefits previously touted by the defendants, ***it would report a loss of £28 billion ($41.3 billion) for 2008***. The press release stated, in relevant part:

> **RBS announces trading update and capital restructuring**
>
> - RBS today provides a trading update ahead of the announcement of its 2008 results on 26 February 2009. The figures quoted in this statement are preliminary estimates and unaudited.
>
> - Credit and market conditions in the fourth quarter of 2008 were particularly challenging and ***RBS estimates the Group will report for full year 2008 an attributable loss, before exceptional goodwill impairments, of between £7.0bn and £8.0bn. The Group is currently reviewing the carrying value of goodwill and other purchased intangibles on its balance sheet*** as part of the finalisation of the year end results. Any goodwill impairments will have no effect on the Group's regulatory capital ratios, and represent non-cash items.
>
> - RBS estimates the Group will report break-even underlying financial performance after credit impairment losses, reflecting profitability across its retail and commercial business in the UK and elsewhere offset by losses in the Global Banking and Markets division ("GBM").
>
> - RBS also announces that it has reached agreement with HM Treasury ("HMT") and UK Financial Investments ("UKFI") to replace the £5bn of preference shares it holds with new ordinary shares. Eligible RBS shareholders will be able to apply to subscribe for approximately £5bn of new ordinary shares pro rata to their existing shareholdings at a fixed price of 31.75 pence per share. This represents an 8.5 per cent discount to the closing price on 16 January 2009. These new ordinary shares will be offered to shareholders and new investors on the same basis as the Offer in November 2008. The ordinary shares offer is fully underwritten by HMT. The proceeds of the issue will be used to fully redeem the preference shares held by HMT.
>
> * * *

Fourth quarter and full year results. In its Interim Management Statement of 4 November 2008 ('IMS') covering the first nine months of the year, RBS stated that, in the light of significant uncertainties in credit conditions and the continued impact of the severe financial market dislocation together with an acceleration of the economic slowdown, it was not possible to forecast the Group's results with precision for the fourth quarter of 2008. It was also highlighted that GBM was expected to record a loss for the quarter. Markedly deteriorating credit and market conditions in November, and particularly December have negatively impacted the Group's financial performance, primarily in GBM. RBS now estimates an underlying break-even financial performance after credit impairment losses for 2008, reflecting the profitability of the Group across its retail and commercial franchises offsetting GBM losses. ***However, after credit market write-downs, integration costs, preference dividends and other items, RBS estimates an attributable loss, before exceptional goodwill impairments, of between £7.0bn and £8.0bn for the year.*** These estimates for the year are preliminary and unaudited. They are therefore subject to finalisation in February 2009. The major negatives contributing to this outcome are discussed below:

- **GBM Income**. Exceptionally difficult credit trading conditions, ongoing market dislocation, subdued activity levels, reserves against widening market spreads, and further write-downs on a variety of trading assets have impacted GBM's fourth quarter income. … The impact of changes in fair value and write-downs on GBM's income, excluding Madoff, in the fourth quarter total approximately £2.8bn. In addition, reserves of approximately £0.6bn have been established against our Credit Derivative Product Companies ("CDPC") exposures. ***As a result of all the above, fourth quarter income is estimated to be approximately £3bn lower than our expectations at the time of the IMS***, only partially offset by a reduction in variable costs.

- **Credit Impairment losses**. Economic conditions deteriorated sharply towards the end of the year. ***As a result, the Group's credit impairment losses for 2008 are estimated to be between £6.5bn and £7.0bn. Of this amount, GBM's credit impairment losses are estimated to be in the region of £3bn.*** This amount includes a provision of approximately £1.0bn relating specifically to our exposure to LyondellBasell Industries and further provisions in GBM totalling approximately £1.5bn in the fourth quarter, predominantly in December, all individually relatively small and spread across different industries. Within our Regional Markets businesses, 2008 credit impairment losses are estimated to be approximately £3.5bn. These are approximately £0.4bn higher than anticipated at the time of the IMS, reflecting a further but more limited deterioration than seen in GBM, in the credit environment within our UK, US and Irish retail and commercial portfolios.

- **Credit market write-downs**. Write-downs for the full year relating to the Group's previously disclosed credit market exposures are estimated in the

> region of £8bn after hedging gains of approximately £1.7bn. The £1.9bn increase in the fourth quarter is primarily driven by increased write-downs against our US ABS CDO exposures of £1.1bn, increased reserves against monoline exposures of approximately £1.5bn, partly offset by hedging gains of approximately £1.1bn.
>
> * * *
>
> **Goodwill impairment**. The Group is currently reviewing the carrying value of goodwill and other purchased intangibles on its balance sheet as part of the finalisation of the year end results. ***Preliminary findings indicate an estimated impairment charge in the region of approximately £15bn to £20bn.*** (Emphasis added; internal references omitted)

75. The Company's January 19, 2009 disclosures shocked the market. For example, *Bloomberg* published an article entitled "RBS May Post 28 Billion-Pound Loss as Crisis Deepens" which stated:

> Royal Bank of Scotland Group Plc said it may post ***a loss of as much as 28 billion pounds ($41 billion), the biggest ever reported by a U.K. company***, as the credit crisis worsens. The stock slumped as much as 71 percent.
>
> Britain's biggest government-controlled bank may post a full-year loss before exceptional goodwill impairments of as much as 8 billion pounds, Edinburgh-based RBS said in a statement today. In addition, the bank may write down the value of past acquisitions by as much as 20 billion pounds.
>
> The loss would eclipse Vodafone Group Plc's 22 billion- pound net loss in 2006. ***RBS has been crippled by its acquisition of ABN Amro Holding NV's investment banking assets three months before the credit crisis began, a takeover Chancellor of the Exchequer Alistair Darling today called "disastrous."*** The Treasury said today it may raise its stake in RBS as it announced the second British bank rescue in three months.
>
> "I am angry at the Royal Bank of Scotland and what has happened," Prime Minister Gordon Brown told reporters in London today. ***The bank took "irresponsible risks," in investing in U.S. subprime mortgages and ABN Amro, he said.***
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> * * *
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> "Full-scale nationalization" is the most likely next step for RBS "if the latest initiative proves insufficient," Nomura analysts Robert Law and Raul Sinha said in a note to clients today. The bank may be forced to raise more cash from investors, diluting existing shareholders' stakes, until the full scale of credit losses is known, they added.

Chief Executive Officer Fred Goodwin spent almost $90 billion on takeovers after he became CEO in 2000, culminating in his 14.3 billion-euro ($19 billion) acquisition of ABN Amro in 2007. Goodwin was ousted in October after the government agreed to take control of the 282-year-old Scottish lender.

"The previous management made this disastrous acquisition of Dutch bank ABN," Darling told BBC Radio 4 today.

'Truly Horrible'

"***The numbers are truly horrible***," said Robert Talbut, who helps manage about $31 billion at Royal London Asset Management. "The government is very clearly in the driving seat, and I would expect RBS to shrink back to being a more U.K.-focused bank."

RBS said it expects to post 8 billion pounds of credit market writedowns for the full year, boosted by losses on U.S. collateralized debt obligations. Credit impairment losses may total as much as a further 7 billion pounds, including a 1 billion-pound loss on its loan to bankrupt chemical maker Lyondell Chemical Co.

"We can all be sure there will be further significant credit losses, but we can't be sure of what amount and what timing," Stephen Hester, who replaced Goodwin as CEO, told reporters on a conference call today. "Significant uncertainties and risks inevitably remain."

*   *   *

The bank will cut lending in international markets which saw "most of the excess balance sheet expansion" under Goodwin, Hester said today. "We are going to restructure and retrench to our most valuable customer franchise business," in the U.K.

Royal Bank of Scotland plans to replace the U.K. Treasury's preference shares, which carry a dividend, with ordinary stock. RBS shareholders will be offered 5 billion pounds of shares for 31.75 pence apiece, the bank said. If shareholders fail to take up their rights, the government's stake in the bank will increase to 70 percent from 58 percent. (Emphasis added)

76. Also on January 19, 2009, The *Financial Times* published an article entitled "Culpability debate at RBS intensifies" which stated:

As the banking crisis worsened, the debate on the size, make-up and culpability of directors on the boards of UK banks has intensified.

The Financial Services Authority started examining the quality of boards and demanding change "where the calibre/expertise/skills of the [non-executive directors is] not good enough" in the wake of the collapse of Northern Rock.

> ***But nowhere has the temperature of the debate risen faster than at Royal Bank of Scotland, where shareholders have become ever more critical of the board for acquiescing too easily in expensive acquisitions.***
>
> ***The debate is reaching boiling point as it emerges that the government will shortly own 70 per cent of the bank following the record losses and write-downs relating to the acquisition of ABN Amro.***
>
> ***"Given the scale of the disaster that the bank now is, it is extraordinary that the directors are still there," said one shareholder on Monday." He added: "The board at RBS is too big, too cosy, has been together for far too long and was too supportive of Sir Fred Goodwin [the former chief executive]."***
>
> ***Shareholder [skepticism] has been rising steadily since the purchase of ABN Amro in 2007. "There was a feeling that the bank had a very powerful CEO and the board couldn't stand up to him," said one shareholder.***
>
> Investors said too many non-executive directors had limited banking experience. Other directors, such as Sir Peter Sutherland, BP chairman, and Sir Steve Robson, former Treasury mandarin, have been in post for nearly eight years. After nine years' service, the UK's corporate governance code says, they cannot be regarded as independent.
>
> Nonetheless, most investor criticism has focused on Sir Tom McKillop and Bob Scott, who, as chairman and the senior independent director, were shareholders' primary channels of contact.
>
> Unhappy shareholders urged the board last summer to replace Sir Tom with Sir Philip Hampton, chairman of J Sainsbury.
>
> The bank hired John McFarlane, a former chief executive of Australia and New Zealand bank, and Arthur Ryan, a former chairman of Prudential Financial in the US, as non-executives. But investors say they were stonewalled over Sir Philip. "We were told he wasn't the right man for the job of chairman," says one.
>
> The board announced last week that Sir Philip would replace Sir Tom. (Emphasis added)

77. The New York Stock Exchange was closed on January 19, 2009, and when it opened again for trading on January 20, 2009, RBS's disclosures caused the value of the Company's shares to fall over 69 percent in just one day.

78. Subsequently, on February 11, 2009, Steven Hester, RBS's replacement for defendant McKillop as the Company's CEO, testified at a U.K. House of Commons Treasury

Committee hearing. In reporting on his testimony, an article entitled "RBS chief: It could take five years to reverse the 'serious failings'" stated:

> Stephen Hester, Royal Bank of Scotland's chief executive, yesterday told MPs ***it would take up to five years to turn around the bank and admitted he had found serious failings at the group.***
>
> The chief executive, who is shortly to unveil at £28 billion loss at the company, also appeared to rule out scrapping controversial bonuses for staff.
>
> Appearing at the Treasury Select Committee with his counterparts at Lloyds Banking Group, Barclays, HSBC and Abbey, ***Mr Hester said there was "a really a huge job" to get RBS "back to standalone health". He added: "I believe it will be a three to five year process."***
>
> Mr Hester, who took over from the ousted Sir Fred Goodwin last autumn as part of the government's £20 billion bail-out, also said ***he had found real problems in risk-management systems at RBS.***
>
> ***"Frankly, the risk-management systems at Royal Bank of Scotland need a lot of change. And frankly I cannot do that in a couple of weeks," he said.***
>
> Short on details, he suggested the areas that needed addressing were in the timing and concentration of risk exposure.
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> * * *
>
> Mr Hester said he felt all banks had been exposed to the difficult economic climate and financial sector meltdown, ***but that RBS's controversial acquisition of ABN Amro "doubled up that risk"***.
>
> However, he said that he found some of the criticism "being thrown around" of RBS's previous non-executives – many of whom stepped down last week – "over-harsh".
>
> The independent directors have been criticised for not reining in Sir Fred's acquisitions. Mr Hester said: "All companies struggle with non-executive balance; it gets down to humans rather than processes."
>
> ***However, John McFall, chairman of the Treasury committee, suggested there might be "systematic" failings in the way the RBS non-executives had functioned.***
>
> Mr McFall cited the calibre of people RBS had as non-executives in the period of disarray, including the Goldman Sachs chairman Sir Peter Sutherland and the former Treasury mandarin Sir Steve Robson.

He said: "It's either [that] people are stupid or there's something systematic. These people [the RBS non-execs] have excellent track records so there must be something systematic." (Emphasis added)

PLAINTIFF'S CLASS ACTION ALLEGATIONS

79. Plaintiff brings this action as a class action pursuant to Rule 23 of the Federal Rules of Civil Procedure on behalf of all persons who purchased RBS's shares during the Class Period (the "Class"). Excluded from the Class are defendants, directors and officers of RBS and their families and affiliates.

80. The members of the Class are so numerous that joinder of all members is impracticable. The disposition of their claims in a class action will provide substantial benefits to the parties and the Court. According to the Company's Form 20-F filed with the SEC on May 14, 2008, as of December 31, 2007, RBS had over 62.9 million shares outstanding, owned by thousands of persons.

81. There is a well-defined community of interest in the questions of law and fact involved in this case. Questions of law and fact common to the members of the Class which predominate over questions which may affect individual Class members include:

(a) Whether the Securities Exchange Act was violated by defendants;

(b) Whether defendants omitted and/or misrepresented material facts;

(c) Whether defendants' statements omitted material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading;

(d) Whether defendants knew or recklessly disregarded that their statements were false and misleading;

(e) Whether the prices of RBS's shares were artificially inflated; and

(f) The extent of damage sustained by Class members and the appropriate measure of damages.

82. Plaintiff's claims are typical of those of the Class because plaintiff and the Class sustained damages from defendants' wrongful conduct.

83. Plaintiff will adequately protect the interests of the Class and has retained counsel who are experienced in class action securities litigation. Plaintiff has no interests which conflict with those of the Class.

84. A class action is superior to other available methods for the fair and efficient adjudication of this controversy.

LOSS CAUSATION/ECONOMIC LOSS

85. Defendants' wrongful conduct, as alleged herein, directly and proximately caused the economic loss suffered by Plaintiff and the Class. The price of RBS's shares significantly declined when the misrepresentations made to the market, and/or the information alleged herein to have been concealed from the market, and/or the effects thereof, were revealed, causing investors' losses. As a result of their purchases of RBS's shares during the Class Period, plaintiff and other members of the Class suffered economic loss, *i.e.*, damages, under the federal securities laws.

SCIENTER ALLEGATIONS

86. During the Class Period, the defendants had both the motive and opportunity to commit fraud. They also had actual knowledge of the misleading nature of the statements they made or acted in reckless disregard of the true information known to them at the time. In so doing, the defendants participated in a scheme to defraud and committed acts, practices and participated in a course of business that operated as a fraud or deceit on purchasers of RBS's shares during the Class Period.

Applicability of Presumption of Reliance:
<u>Fraud on the Market Doctrine</u>

87. Plaintiff will rely upon the presumption of reliance established by the fraud-on-the-market doctrine in that, among other things:

(a) Defendants made public misrepresentations or failed to disclose material facts during the Class Period;

(b) The omissions and misrepresentations were material;

(c) The Company's shares traded in an efficient market;

(d) The misrepresentations alleged would tend to induce a reasonable investor to misjudge the value of the Company's shares; and

(e) Plaintiff and other members of the Class purchased RBS shares between the time defendants misrepresented or failed to disclose material facts and the time the true facts were disclosed, without knowledge of the misrepresented or omitted facts.

88. At all relevant times, the market for RBS shares was efficient for the following reasons, among others: (a) as a regulated issuer, RBS filed periodic public reports with the SEC; and (b) RBS regularly communicated with public investors via established market communication mechanisms, including through regular disseminations of press releases on the major news wire services and through other wide-ranging public disclosures, such as communications with the financial press, securities analysts and other similar reporting services.

<u>NO SAFE HARBOR</u>

89. Defendants' verbal "Safe Harbor" warnings accompanying its oral forward-looking statements ("FLS") issued during the Class Period were ineffective to shield those statements from liability.

90. The defendants are also liable for any false or misleading FLS pleaded because, at the time each FLS was made, the speaker knew the FLS was false or misleading and the FLS was authorized and/or approved by an executive officer of RBS who knew that the FLS was false. None of the historic or present tense statements made by defendants were assumptions underlying or relating to any plan, projection or statement of future economic performance, as they were not stated to be such assumptions underlying or relating to any projection or statement of future economic performance when made, nor were any of the projections or forecasts made by defendants expressly related to or stated to be dependent on those historic or present tense statements when made.

FIRST CLAIM
Violation of Section 10(b) of The Exchange Act and Rule 10b-5 Promulgated Thereunder Against All Defendants

91. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

92. During the Class Period, RBS and the Individual Defendants carried out a plan, scheme and course of conduct which was intended to and, throughout the Class Period, did: (i) deceive the investing public, including Plaintiff and other Class members, as alleged herein; and (ii) cause Plaintiff and other members of the Class to purchase RBS shares at artificially inflated prices. In furtherance of this unlawful scheme, plan and course of conduct, these defendants, and each of them, took the actions set forth herein.

93. RBS and the Individual Defendants: (i) employed devices, schemes, and artifices to defraud; (ii) made untrue statements of material fact and/or omitted to state material facts necessary to make the statements not misleading; and (iii) engaged in acts, practices, and a course of business which operated as a fraud and deceit upon the purchasers of the Company's

shares in an effort to maintain artificially high market prices for RBS shares in violation of Section 10(b) of the Exchange Act and Rule 10b-5. These defendants are sued either as primary participants in the wrongful and illegal conduct charged herein or as controlling persons.

SECOND CLAIM
Violation of Section 20(a) of The Exchange Act the Individual Defendants

94. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

95. The Individual Defendants acted as controlling persons of RBS within the meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue of their high-level positions, and their ownership and contractual rights, participation in and/or awareness of the Company's operations and/or intimate knowledge of the false financial statements filed by the Company with the SEC and disseminated to the investing public, the Individual Defendants had the power to influence and control and did influence and control, directly or indirectly, the decision-making of the Company, including the content and dissemination of the various statements which Plaintiff contends are false and misleading. The Individual Defendants were provided with or had unlimited access to copies of the Company's reports, press releases, public filings and other statements alleged by Plaintiff to be misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

96. In particular, each of the Individual Defendants had direct and supervisory involvement in the day-to-day operations of the Company and, therefore are presumed to have had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

97. As set forth above, RBS and the Individual Defendants each violated Section 10(b) and Rule 10b-5 by their acts and omissions as alleged in this Complaint. By virtue of their positions as controlling persons, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate result of these defendants' wrongful conduct, Plaintiff and other members of the Class suffered damages in connection with their purchases of the Company's shares during the Class Period.

WHEREFORE, Plaintiff prays for relief and judgment, as follows:

(a) Determining that this action is a proper class action under Rule 23 of the Federal Rules of Civil Procedure;

(b) Awarding compensatory damages and equitable relief in favor of Plaintiff and the other Class members against all defendants, jointly and severally, for all damages sustained as a result of defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

(c) Awarding Plaintiff and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

(d) Such other and further relief as the Court may deem just and proper.

JURY TRIAL DEMANDED

Plaintiff hereby demands a trial by jury.

Dated: February 18, 2011

Respectfully submitted,

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Attorneys for Plaintiff

CERTIFICATION

I, Ethan Gold ("Plaintiff") declare, as to the claims asserted under the federal securities laws, that:

1. **Plaintiff has reviewed the Complaint, and authorizes its filing.**

2. Plaintiff did not purchase the security that is the subject of this action at the direction of Plaintiff's counsel or in order to participate in any private action.

3. Plaintiff is willing to serve as a representative party on behalf of the class, either individually or as part of a group, including providing testimony at deposition and trial, if necessary.

4. Plaintiff's purchase and sale transaction(s) in the Royal Bank of Scotland Group (**Lse: RBS**) security that is the subject of this action during the Class Period is/are as follows:

Type of Security (common stock, preferred, option, or bond)	Number of Shares	Bought (B)	Sold (S)	Date	Price per share
SEE ATTACHMENT A					

(Please list additional purchase and sale information on a separate sheet of paper, if necessary)

5. Plaintiff has complete authority to bring a suit to recover for investment losses on behalf of purchasers of the subject securities described herein (including plaintiff, any co-owners, any corporations or other entities, and/or any beneficial owners).

6. During the three years prior to the date of this Certification, Plaintiff has not sought to serve or served as a representative party for a class in an action filed under the federal securities laws except as described below:____________________.

7. Plaintiff will not accept any payment for serving as a representative party on behalf of the class beyond the Plaintiff's pro rata share of any recovery, except such reasonable costs and expenses (including lost wages) directly relating to the representation of the class as ordered or approved by the Court.

I declare under penalty of perjury that the foregoing is true and correct.

Executed this 16 day of Feb, 2011.

ETHAN GOLD

ATTACHMENT A

Type of Security (common stock, preferred, option, or bond)	Number of Shares	Bought (B)	Sold (S)	Date	Price per share
ADR	7.512	B		6/11/2008	$86.29
ADR	1.2849	B		6/19/2008	$88.51
ADR	6.3753	B		6/20/2008	$86.05
ADR	2.8992	B		9/11/2008	$82.85
ADR	3.3824	B		9/12/2008	$85.44
ADR	1.5462	B		9/15/2008	$77.84
ADR	2		S	2/10/2009	$7.30
ADR	21		S	2/12/2009	$6.81